servus credit union™

Management's Discussion and Analysis
Consolidated Financial Statements

For the year ended October 31, 2019

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SERVUS CREDIT UNION LTD.
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For the year ended October 31, 2019

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Servus Credit Union Ltd.'s (Servus or the credit union) 2019 annual report consists of Management's Discussion and Analysis and the Consolidated Financial Statements for the year ended October 31, 2019, 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 385,000 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
- Dan Bruinooge, Chief People & Corporate Services Officer
- Ryan Gobolos, Chief Financial Officer
- Dion Linke, Chief Operating Officer
- Taras Nohas, Senior Vice President, Strategy & Governance
- Joanne Simes, Chief Credit Officer
- Caroline Ziober, Chief Member Experience Officer

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®

Together with our vision, noble purpose and values, these principles serve as guides for the work done by the credit union for members, communities, employees and other stakeholders.

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.

As in previous years, the credit union worked with 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 2019, we made contributions to many organizations in order to provide greater public access. These are some of our partners:

- Edmonton Heritage Festival
- Canalta Centre (Medicine Hat)
- Glenbow Museum (Calgary)
- Grande Prairie Live Theatre
- Lethbridge arenas: Servus Sports Centre, Archie Miller Arena, Centennial Civic Centre Arena
- Nitehawk Ski Club (Grande Prairie)
- Servus Arena (Red Deer)
- Servus Sports Centre (Lloydminster)
- Snow Valley (Edmonton)
- WinSport (Calgary)

Social Impact

Servus's noble purpose of shaping member financial fitness is the overarching statement of our social impact. If we are successful in making our members more financially fit, they can better manage their family needs, contribute more to their community and build a better world. Each year, we measure the financial fitness of our members and Albertans. In 2019, our member scores remained slightly higher than those for Alberta.

Overall FF Scores out of 100 across four dimensions of plan, spend, borrow and save are measured by Servus's annual financial fitness survey.	2019	2018
Servus Credit Union Members	67.1	68.5
Alberta	65.5	68.1

Notwithstanding, we know our work to improve the financial fitness of members must continue. The sustained economic headwinds in Alberta make it increasingly difficult for individuals, families and businesses to thrive financially. Our role is to provide our members with the knowledge, tools and respectful advice necessary for them to feel in control of their finances, build resilience against further economic challenges and pursue new opportunities when they arise — in other words, to feel good about their money.

Last year, Servus supported 800 community organizations with $2.3 million in financial contributions. A significant portion of those focused on enhancing the financial fitness and resilience of members and communities. We provided $16,000 in scholarships for students attending Alberta post-secondary schools so those without the means are able to pursue opportunities for an improved financial future. Other important actions we've taken to support member financial fitness are:

- Continued 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.
- Helped members set and work toward achieving financial goals in areas such as budgeting, retirement, income protection, debt management and estate planning.

- Held sessions inviting successful small businesses to share their stories and lessons with others in the business community.
- Raised employee knowledge and awareness of the best ways to shape member financial fitness, including taking steps to ensure every member feels valued, respected and informed.

Together with our members we are making a significant and positive impact on our society. Going forward we intend to broaden our impact by seeking partnerships with like-minded organizations and governments in fulfilling our noble purpose.

Environmental Impact

Over the past several years, Servus has taken a number of steps to improve its environmental performance. We track our performance for greenhouse gas emissions, energy consumption, paper use and waste. In 2019 we:

- Decreased our year-over-year carbon footprint per member from 18 kilograms to 17 kilograms. Our absolute greenhouse gas (GHG) emissions decreased this year by 5.8% compared to 2018. We are now 1% above our 2015 baseline level despite adding branches and growing our business. Our long-term target is to reduce absolute emissions by 4% from baseline levels by the end of the 2020 fiscal year.
- Decreased year-over-year paper use by 7%, and we are now 29% below the 2015 baseline level, exceeding our target to reduce by 15% by the end of the 2020 fiscal year. In addition, we recycled the equivalent of 83% of all paper purchased by us and outsourced suppliers, up from 77% in 2017.
- We recycled 100% of our electronic waste.

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 2019, the credit union:

- Received three awards from the Canadian Credit Union Association at the National Credit Union Awards:
  - The National Credit Union Innovation Award for the new Patronage Advance Program.
  - Two CCUA Achievement in Marketing Excellence (AIME) Awards for the 'Unbelievable Stories' TV advertising series and the 'Believe it, you can feel good about your money' radio advertising series.
- Re-qualified as a member of the Platinum Club of Canada's Best Managed Companies for the 10th year
- Named to Forbes 2019 Canada's Best Employers list and one of top three financial institutions

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 15th year in a row, credit unions outperformed other Canadian financial institutions when it came to providing great service. Credit unions were also first in Values My Business Excellence, Financial Planning and Advice, Online Banking Excellence, Branch Service Excellence, and Live Agent Telephone Banking Excellence. Canada's credit unions scored higher than the Big 5 banks on all key metrics, including Value for Money. For us, it's always about putting members first.

**Ipsos 2019 Best Banking Awards were based on ongoing quarterly Customer Service Index (CSI) survey results. The sample size for the total 2019 CSI program year ending with the September 2019 survey wave was 47,746 completed surveys yielding 72,463 financial institution rankings nationally.*

Economic Environment: 2019 Review

The International Monetary Fund (IMF) expects global Gross Domestic Product (GDP) growth of just 3.0% by the end of 2019 — the lowest level of global growth experienced since 2008 and 2009. Emerging and developing economies continue to support the average with higher growth levels (around 3.9%) than more advanced economies (around 1.7%).

West Texas Intermediate (WTI) oil prices performed slightly above forecasts from one year ago, trending between US$50 to $60 for most of 2019. Forecasts at this time last year expected the range to be US$40 to $50.

South of our border, US GDP growth is expected to slow to just above 2% in 2019 after economic growth of nearly 3% in 2018. The weaker-than-expected economy prompted the Federal Reserve to cut US interest rates three times during 2019 after seven interest rate hikes over 2017 to 2018. Despite its slowing economy, the US labor market continued to strengthen during 2019, with the unemployment rate falling from 4.0% at the end of 2018 to approximately 3.7% in late 2019.

Closer to home, Canada's GDP fluctuated throughout 2019. The year began slowly with 0.4% in the first quarter, picking up to 3.7% in the second quarter, and fell back to 1.3% in the third quarter. The Bank of Canada's and Conference Board of Canada's most recent forecasts suggest that Canada should finish at 1.5 to 1.6% GDP growth by the end of the year.

The Bank of Canada has not adjusted their policy interest rate since October 2018 despite growing market expectations of declining interest rates following the rate cuts made by the Federal Reserve in the US. That said, Canada did not increase rates as aggressively as the US did during 2017-2018.

According to the Bank of Canada, rates seem to be in balance with inflation expected to perform near their target of 2% for the next two years, but future rate decisions will depend heavily on future economic data releases. For Servus members, interest rates on lending and deposit products were relatively steady throughout 2019.

Canada's housing market has been relatively steady on average despite the slower economy and more restrictive mortgage qualification rules. On the labour front, Canadian unemployment has remained steady throughout 2019, in the range of mid-5% and has improved over recent years (6.3% in 2017 and 5.8% in 2018).

After closing at US$0.733 at the end of 2018, the Canadian dollar strengthened throughout the year, reaching a high of US$0.767 on July 12 and closing recently around $0.753 in late November. This outcome is to be expected given that the Bank of Canada held the policy interest rate steady while the US Federal Reserve cut their policy interest rate multiple times during 2019.

In Alberta, real GDP growth is forecast to continue decreasing to approximately 0.6 to 0.8% in 2019 after a relatively average year of around 2.1 to 2.3% growth in 2018. Meanwhile, Alberta's unemployment rate held steady in 2019, dropping slightly to 6.7% as of October from 6.8% in 2018. While improving very little this year, this is still materially better than the 7.8% unemployment rate posted in 2017.

After falling in 2018, Alberta's year-to-date housing starts are down slightly by 2.7% as of October 2019, although the monthly trend appears to be rising with strong year-over-year growth months in September and October. According to the Canadian Real Estate Association, both Calgary and Edmonton have seen moderate price declines, with the MLS® Home Price Index falling by approximately 2.4% year-over-year for both cities as of October 2019.

While Alberta continued to struggle with an economic recovery in 2019, it remains to be seen how our newly elected provincial government will impact our economy in the coming years. Hopes are pinned largely on corporate tax cuts revitalizing the economy over the next few years and progress on pipeline development.

Servus's Financial Highlights in 2019

Servus achieved record operating income (income before patronage and taxes) of $165.5 million despite strong headwinds in 2019. Net income after patronage and taxes also reached a new high of just over $100 million. Slow economic growth limited Servus's asset growth to 1.1% compared with 4.9% in the previous year and a lingering low interest rate environment continued to put pressure on net interest income. In the face of this, Servus had another successful financial year which enabled a record $57.0 million profit share distribution to our members through share dividends and Profit Share® Rewards cash.

Financial Position

Servus experienced moderate loan (1.7%) and overall deposit (2.4%) growth in 2019 but had greater success than in years past in growing our stable deposit book. These smaller and stickier types of deposits build the foundation for higher levels of sustainable long-term growth.

Focus on our business goals and prudent budget management resulted in a significant net income increase of 16.5%. Despite challenging circumstances in Alberta, we're pleased that our focus on new initiatives, cost management and providing valuable services to our members resulted in a successful year.

This year, Servus was able to improve its liquidity position by reducing long term debt with a $50 million reduction in borrowings and $185.7 million reduction in securitization liabilities. Stronger stable deposit growth also allowed Servus to reduce its less-stable deposit portfolio, consisting of larger corporate and institutional deposits. The balance sheet shows strength and long-term sustainability.

Capital Position

As a financial co-operative, Servus's Board of Directors and management team see the importance of maintaining a generational trust for 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 2019, which enables Servus to take advantage of opportunities as they arise.

	2019	2018	2019 Internal Policy Requirement	2019 Minimum Supervisory Requirement
Capital to assets	9.4%	8.9%	4.0%	4.0%
Retained earnings to assets	5.6%	5.2%	4.0%	N/A
Capital as a % of risk-weighted assets	16.72%	16%	13.50%	11.50%

Income

Net interest income (the difference between what we spend on deposit interest and what we earn on loan interest, also referred to as margin) grew 3.0% in 2019 off of moderate loan and deposit growth and unrealized gains on interest rate derivatives.

Provision for credit losses fell by 31.3% in 2019. The decrease is due to a number of factors, including improvement in the quality of our loan book through the year, a reduction in our total loans written off and changes to accounting standards. Mastercard and business loan write-offs were down significantly this year along with an increase in recoveries. Our discussions with members indicate that they are adjusting to the realities of the current economy in the face of dropping housing prices, increased unemployment and increasing insolvencies in Alberta. Over the last three years, members have expressed concern about their use of borrowing, and we are working to incorporate the wise use of credit as part of shaping their financial fitness.

Other income continues to rise, largely thanks to the investment made in 2018 to purchase our members' credit card book. This is bringing income to the credit union and members, as opposed to benefiting shareholders of other financial corporations. Keeping the profits within the credit union is one of the ways we can increase our profit share payments to members. More members are also taking advantage of Servus's wealth management services, which in turn leads to income for Servus.

Personnel expenses increased 2.5% due to a 0.7% increase in employees, and cost of living, merit and promotions which accounted for approximately 2.0%. This was offset by variable pay which was down slightly compared to 2018.

Decreases in marketing, professional fees and depreciation were offset by increases in building repairs and maintenance, amortization of computer software and member security costs. Other expenses were very similar to 2018 costs.

Increases in general expenses, which include professional fees, technology and information systems security are partly due to many changes and improvements we made to the services we provide to members. These include:

- Expanding our mobile payment options, which now include all six types (Google Pay debit and credit, Samsung Pay debit and credit, Apple Pay debit and credit).

- New online banking products, which allow individuals to become members, sign up for products and set savings goals.
- Improvements to business online banking services.
- A new member relationship management tool, to better serve members and support them to manage their financial fitness goals.
- Single sign-in partnership with the Government of Canada.
- Increased security features to ensure member accounts and personal information remain safe and secure.
- Expanding our branch network by building a branch in the Bridlewood community in Calgary and amalgamating with Edson Credit Union.

Operating income of $165.5 million was up $19.6 million (13.4%) over last year. As Servus's tax rate drops due to a decrease in the provincial tax rate, patronage payments to members increased. We returned $57.0 million to members, comprised of Profit Share® Rewards cash ($32.4 million), common share dividends ($19.2 million) and investment share dividends ($5.4 million). Altogether this resulted in $100.6 million net income for Servus, which was up 16.5% over last year.

2019 Balanced Scorecard Results

Objective	Measure	2019 Target	2019 Result	2018 Result
The value of being a member is clear and compelling	Member Satisfaction	89%	89%	85.1%
Servus members as advocates	Member Loyalty Index	79%	78%	81%
High level employee engagement	Employee engagement	82%	84%	85%
Positive leadership climate	Leadership Climate Index	75%	74%	74%
Financial growth	Operating income[1]	$149.0 million	$148.9 million	$140.8 million
Reduced dependency on interest based income	Other income as a percentage of average assets[1]	0.696%	0.747%	0.707%
Leveraging assets profitably	Return on assets[1]	0.911%	0.921%	0.894%
Business process improvement for efficiency and effectiveness	Operating efficiency ratio[1, 2]	66.281%	65.488%	64.598%
	Operating expenses as a percentage of average assets[1]	2.115%	2.085%	2.060%

[1]Results are before patronage, income taxes and extraordinary items.
[2]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: 2020 Outlook

The most recent International Monetary Fund forecast suggests that global GDP growth should rebound slightly, from 3.0% in 2019 to 3.4% for 2020. This moderate forecast is consistent with the slow recovery the world has been experiencing over the decade since the financial calamity and subsequent recession of 2009. Many major geopolitical and economic questions are left to be answered over the next year, particularly with respect to United States-China trade tensions. With the upcoming election in the United States, 2020 promises to be an interesting year for the global economy and political landscape.

Barring some type of unexpected geopolitical event, oil prices are expected to hold relatively steady with some upside potential if the global economy can find its feet and rebound higher than forecast. In particular, a recovery in the US could spur greater demand and moderately higher prices.

The United States GDP is expected to hold relatively flat around the low-2% level through 2020. The markets are still anticipating another rate cut or two from the Federal Reserve in an effort to spur growth during the upcoming year. Should this prove to be true, we could expect the United States labour market to begin to see increases in their unemployment rate levels, compared to the historically low rates they are currently experiencing.

When writing this section a year ago, we weren't sure how the US-China trade situation would play out. A year later, the picture remains fuzzy. Equity markets have ignored the ongoing tension, evidenced by the S&P 500 and Dow Jones Industrial Average indexes reaching all-time highs in late-2019. Time will tell how this plays out; however, if there is any type of stumble, we could see a swift market correction on a correspondingly gloomier economic outlook.

For Canada, forecasters are calling for a very slight improvement to GDP for 2020, with growth expectations coming in around 1.7% to 1.8%. Accordingly, 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 a possibility again if economic results disappoint or the United States Federal Reserve continues to cut their interest rate.

This rate outlook continues to benefit borrowers and provide attractive mortgage rates to first-time home buyers in the face of tighter mortgage qualification standards. For savers, a decade of record-low interest rates is poised to continue through 2020. This would likely give equity markets a continued tailwind as investors chase higher yielding assets. The fear is that risk is overlooked in the risk-return trade-off and any correction to stock prices could have a devastating effect on investor net worth.

Alberta's economy is projected to pick up in 2020 according to most forecasts. GDP growth forecasts are largely calling for growth in the 1.5% to 2.7% range. Many forecasts for improvement are contingent on the economic spin-off from corporate tax cuts and progress on oil distribution, which are unknowns to consider before putting too much stock into these projections.

Setting the Direction: 2020 – 2022 Strategic Plan

In 2017, Servus established our noble purpose of shaping member financial fitness. Increasing the financial fitness of our members, and the financial fitness of Servus to serve them, guides everything we do.

In 2020, we are taking our strategic planning another step further. We're defining a clear and compelling future for our credit union and drawing a roadmap to get us there. In our Compelling Future, by approximately 2029, Servus Credit Union will have doubled its assets and considerably increased the number of members we are serving. We will have significantly increased our return on assets through a combination of revenue growth and cost reduction, while we also consistently achieve double digit growth over the business cycle. Servus members will be benefiting from our unique and finely tuned financial fitness experience in ways they never thought possible. Ultimately, they will be more financially fit than Albertans who do not bank with Servus.

The initial time horizon for our Compelling Future is the focus of the FY2020 - 2022 Strategic Plan. Throughout this horizon we will focus on growing the credit union and undergo a digital transformation in how we operate. This will be accomplished through three strategic priorities — key overarching and enterprise-wide areas of primary focus, that we must excel at in order to succeed. Our strategic priorities for FY2020 - 2022 are:

- Member Experience: Aimed at increasing differentiated financial fitness experiences, increasing members who have financial goals, and increasing the alignment between products, services and channels to our member and market needs.
- Financial Fitness Champions: Aimed at increasing staff capacity and capability to deliver financial fitness and improving our employee experience.
- Financial Fitness Enablers: Aimed at increasing access to information and knowledge, capabilities for delivering member financial fitness and Servus's overall financial fitness.

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.

The Servus Balanced Scorecard annually establishes and measures targets in several categories:

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.

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 President & Chief Executive Officer (CEO) and Senior Vice President of Risk and Audit.

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. The four board committees are:

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 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. Voting is held annually online and at every branch. 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.

Director Remuneration and Attendance November 1, 2018 – October 31, 2019

Director	Board Meetings*	Committee Name	Committee Meetings	Total Remuneration: Honorarium + per diem + travel time (includes CPP)
John Lamb (Board Chair)	14 of 14	Chair/Vice/CEO Audit/Finance ERM Governance & HR Central briefing CUCA AGM (days)	10 5 5 10 3 3	$71,949
Amy Corrigan Board Vice Chair (Nov-Mar) Nominating Committee Chair (Mar - present)	14 of 14	Chair/Vice/CEO Audit/Finance Governance & HR Nominating CUCA AGM (days)	5 2 10 3 3	$64,252
Danielle Ghai	12 of 14	Audit/Finance ERM Governance & HR Nominating AGM Committee	2 2 6 3 7	$57,201
Darcy Mykytyshyn GHR Chair (Mar – present)	14 of 14	Audit/Finance Governance & HR Nominating	2 9 3	$55,206
Dianne Brown Board term: 11/01/18 – 03/30/19 GHR Chair (Nov – Mar)	4 of 4	Audit/Finance Governance & HR	1 4	$19,654
Doug Bristow AFC Chair (Nov - Oct)	14 of 14	Audit/Finance Governance & HR Nominating CUCA AGM (days)	9 1 3 1	$56,214
Doug Hastings ERM Chair (Nov - Mar)	14 of 14	Audit/Finance ERM Governance & HR Central briefing Community Council	2 6 1 5 2	$54,860

Iris Evans	13 of 14	Audit/Finance Governance & HR Central briefing Community Council	9 1 5 4	$51,950
Jon Holt	14 of 14	Audit/Finance ERM Governance & HR Nominating CUCA AGM (days)	9 2 1 1 3	$57,324
Matthew Protti ERM Chair (Mar - present)	14 of 14	Audit/Finance ERM (C) Governance & HR Community Council CUCA AGM (days)	2 6 1 1 3	$54,661
Perry Dooley	14 of 14	Audit/Finance Governance & HR Nominating Central briefing Community Council	2 10 1 5 2	$66,547
Shawn Eltom	10 of 10	ERM (C)	4	$35,454
Simon Neigum Vice-Chair (Mar – present) Nominating Committee Chair (Nov – Mar)	14 of 14	Chair/Vice/CEO Audit/Finance ERM (C) Governance & HR Nominating Community Council CUCA AGM (days)	4 8 3 1 2 1 3	$68,844

- Board meetings include Servus's Annual General Meeting (AGM), annual board planning session, joint meeting with the CUDGC board, joint training sessions and ad hoc board teleconferences.
- The board of directors 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.
- The Nominating Committee members are never in the final year of their term. Candidate interviews were held October 28 – October 30, 2019, in addition the Committee Chair attends the 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 Committee denotes 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 14 board meetings last year which included a two-and-a-half-day planning session in April. In addition, the Audit & Finance Committee met 9 times, the Enterprise Risk Management Committee met 6 times and the Governance & Human Resources Committee met 10 times. The Nominating Committee met 2 times in 2019 and conducted three days of candidate interviews. Additional ad hoc committee meetings were held as required.

Directors participated in the following:

- CUES Directors Conference in December 2018
- Servus's Annual General Meeting in March 2019
- The Credit Union Central of Alberta (CUCA) Conference and Annual General Meeting in April 2019
- The Canadian Credit Union Association (CCUA) Annual General Meeting and Conference in May 2019
- The World Credit Union Conference in July 2019

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 2019 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. Three management committees — the Asset Liability Committee, the Management Credit 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.

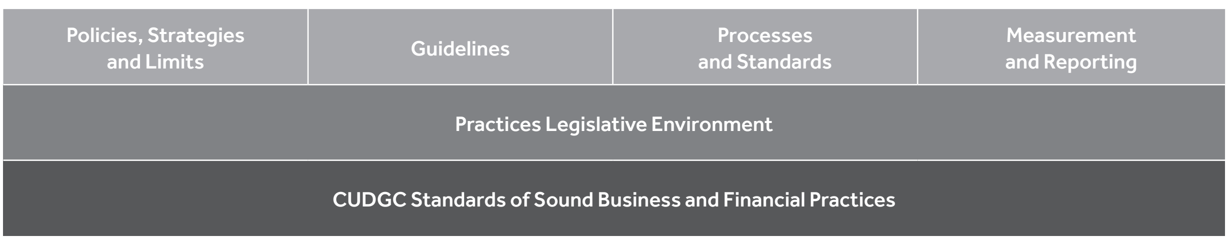

Figure 2: Servus Credit Union's Risk Management Framework

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, 2019

SERVUS CREDIT UNION LTD.
Consolidated Financial Statements

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.

Opinion

We have audited the consolidated financial statements of Servus Credit Union Ltd. (the "Company"), which comprise the consolidated statement of financial position as at October 31, 2019, and the consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and those charged with Governance for the Consolidated Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte LLP

Chartered Professional Accountants
Edmonton, Alberta
January 16, 2020

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

	Notes	**October 31 2019**	October 31 2018
Assets			
Cash and cash equivalents	5	**$ 107,760**	$ 123,612
Investments	6	**1,198,908**	1,268,128
Members' loans	7	**14,541,959**	14,294,509
Income taxes receivable		**7,651**	8,345
Assets held for sale	10	**12,811**	8,086
Other assets	11	**31,600**	19,166
Property and equipment	12	**139,815**	142,936
Investment property	13	**4,617**	5,006
Derivative financial assets	14	**8,239**	5,998
Investment in associate	15	**193,795**	184,587
Intangible assets	16	**60,430**	66,273
Deferred income tax assets	17	**–**	607
Total assets		**16,307,585**	16,127,253
Liabilities			
Borrowings	18	**200,000**	250,000
Securitization liabilities	19	**1,144,015**	1,329,762
Members' deposits	20	**13,131,397**	12,826,156
Trade payables and other liabilities	21	**195,063**	178,301
Income taxes payable		**124**	–
Allowance for off balance sheet credit instruments	7,8	**6,064**	–
Derivative financial liabilities	14	**8,893**	12,372
Investment shares	23	**418**	427
Defined benefit plans	22	**7,555**	7,356
Deferred income tax liabilities	17	**11,742**	11,404
Total liabilities		**14,705,271**	14,615,778
Equity			
Share capital	23	**681,848**	670,275
Retained earnings		**909,369**	833,009
Accumulated other comprehensive income		**11,097**	7,217
Total equity attributable to members of the Credit Union		**1,602,314**	1,510,501
Non-controlling interest		**–**	974
Total equity		**1,602,314**	1,511,475
Total liabilities and equity		**$ 16,307,585**	$ 16,127,253

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
(Canadian $ thousands, except per share amounts)

	Notes	Year ended October 31 2019	Year ended October 31 2018
Interest income			
Members' loans		$ **590,162**	$ 539,391
Investments	24	**28,077**	16,392
Total interest income		**618,239**	555,783
Interest expense			
Members' deposits		**184,323**	137,609
Other interest expense	25	**33,963**	29,761
Total interest expense		**218,286**	167,370
Net interest income		**399,953**	388,413
Other income	26	**124,287**	114,154
Share of profits from associate	15	**7,897**	7,792
Net interest income and other income		**532,137**	510,359
Provision for credit losses	6,8	**19,819**	28,835
Net interest income after provision for credit losses		**512,318**	481,524
Operating expenses			
Personnel		**205,814**	200,807
General		**76,144**	72,310
Occupancy		**21,801**	20,672
Member security		**14,370**	13,889
Depreciation	12,13	**12,072**	13,203
Organization		**4,981**	4,679
Impairment of assets	10,16	**1,126**	925
Amortization		**10,553**	9,133
Total operating expenses		**346,861**	335,618
Income before patronage allocation to members and income taxes		**165,457**	145,906
Patronage allocation to members	23	**32,370**	30,821
Income before income taxes		**133,087**	115,085
Income taxes	17	**32,494**	28,725
Net income		$ **100,593**	$ 86,360

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

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

	Notes		Year ended October 31 2019		Year ended October 31 2018
Net income		**$**	**100,593**	$	86,360
Other comprehensive income for the year, net of tax:					
Items that may be reclassified subsequently to profit or loss:					
Actuarial loss on defined benefit pension plans [1]	22		**(92)**		(51)
Unrealized gain (loss) and reclassification adjustments on fair value through other comprehensive income securities [2]			**1,756**		(1,641)
Reclassification of net gains to net income [3]			**(114)**		–
Share of other comprehensive income (loss) from associate					
Actuarial gain (loss) on defined benefit pension plans [4]			**92**		(108)
Items that will not be reclassified to profit or loss:					
Share of other comprehensive income from associate					
Unrealized gain and reclassification adjustments on fair value through other comprehensive income securities [5]			**2,238**		9,161
Total other comprehensive income		**$**	**3,880**	$	7,361
Total comprehensive income		**$**	**104,473**	$	93,721
Total comprehensive income					
Comprehensive income attributable to members			**104,440**		93,769
Comprehensive income (loss) attributable to non-controlling interest			**33**		(48)
Total comprehensive income		**$**	**104,473**	$	93,721

[1] Net of income tax recovery for the year ended October 31st of $33, 2018 of $18
[2] Net of income tax expense (recovery) for the year ended October 31st of $649, 2018 of $(607)
[3] Net of income tax expense transferred for the year ended October 31st of $42, 2018 – $0
[4] Net of income tax expense (recovery) for the year ended October 31st of $34, 2018 – $(40)
[5] Net of income tax expense for the year ended October 31st of $166, 2018 – $3,388

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

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

	Notes	Common Shares	Investment Shares	Retained Earnings	Accumulated Other Comp-rehensive (Loss) Income	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		–	–	–	9,053	–	9,053
Balance at October 31, 2018		$ 550,767	$ 119,508	$ 833,009	$ 7,217	$ 974	$ 1,511,475

	Notes	Common Shares	Investment Shares	Retained Earnings	Accumulated Other Comp-rehensive Income	Non-controlling Interest	Total Equity
Balance at October 31, 2018 as previously reported		**$ 550,767**	**$ 119,508**	**$ 833,009**	**$ 7,217**	**$ 974**	**$ 1,511,475**
Impact of adoption of IFRS 9	4	**–**	**–**	**(6,134)**	**–**	**–**	**(6,134)**
Balance at November 1, 2018		**550,767**	**119,508**	**826,875**	**7,217**	**974**	**1,505,341**
Changes in equity							
Issues of share capital	23	**23,534**	**–**	**–**	**–**	**–**	**23,534**
Redemption of share capital	23	**(32,764)**	**(3,833)**	**–**	**–**	**–**	**(36,597)**
Dividends on share capital	23	**19,256**	**5,380**	**–**	**–**	**–**	**24,636**
Net income		**–**	**–**	**100,560**	**–**	**33**	**100,593**
Windup of 1626210 Alberta Ltd.		**–**	**–**	**–**	**–**	**(1,007)**	**(1,007)**
Dividend (net of income tax recovery of $6,570)	23	**–**	**–**	**(18,066)**	**–**	**–**	**(18,066)**
Fair value adjustment for investments		**–**	**–**	**–**	**1,756**	**–**	**1,756**
Transfer from AOCI to P&L on MBS bond sale	22	**–**	**–**	**–**	**(114)**	**–**	**(114)**
Actuarial loss on defined benefit plans		**–**	**–**	**–**	**(92)**	**–**	**(92)**
Share of other comprehensive income from associate		**–**	**–**	**–**	**2,330**	**–**	**2,330**
Balance at October 31, 2019		**$ 560,793**	**$ 121,055**	**$ 909,369**	**$ 11,097**	**$ –**	**$ 1,602,314**

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 2019	Year ended October 31 2018
Cash flows from (used in) operating activities			
Net income		**$ 100,593**	$ 86,360
Adjustments for non-cash items and others			
Net interest income		**(399,953)**	(388,413)
Provision for credit losses		**19,819**	28,835
Share of profits from investment in associate		**(7,897)**	(7,792)
Depreciation and amortization		**22,625**	22,336
Impairment of assets		**1,126**	925
Gain from amalgamations	33	**(3,801)**	(4,214)
Gain on assets held for sale		**(244)**	(56)
Loss (gain) on disposal of property and equipment		**61**	(69)
Loss on disposal of intangible assets		**93**	97
Income taxes		**32,494**	28,725
Adjustments for net changes in operating assets and liabilities			
Change in members' loans		**(250,148)**	(596,625)
Change in members' deposits		**243,116**	203,395
Change in assets held for sale		**(23,098)**	(14,302)
Net change in other assets, provisions, and trade payables and other liabilities		**3,220**	(8,164)
Income taxes received and (paid), net		**(28,462)**	(44,454)
Interest received		**615,469**	547,672
Interest paid		**(203,171)**	(155,226)
Net cash from (used in) operating activities		**121,842**	(300,970)
Cash flows from (used in) investing activities			
Additions to intangible assets		**(5,236)**	(32,391)
Additions to property and equipment, and investment property		**(9,799)**	(5,923)
Cash and cash equivalents arising from amalgamation		**26,577**	9,521
Proceeds on disposal of property and equipment, and investment property		**575**	1,492
Proceeds on disposal of assets held for sale		**20,000**	14,880
Purchase of Alberta Central shares		**(3,040)**	(1,950)
Distributions from Alberta Central		**5,160**	10,456
Change in derivatives		**(5,720)**	25,063
Investments		**78,380**	(77,269)
Net cash from (used in) investing activities		**106,897**	(56,121)
Cash flows from (used in) financing activities			
Term loans and lines of credit	18	**(50,000)**	150,000
Advances of securitization liabilities		**235,178**	674,895
Repayment of securitization liabilities		**(420,444)**	(431,240)
Repayment of obligation under finance leases		**(239)**	(18)
Non-controlling interest		**(1,007)**	–
Tax recovery on dividend paid		**6,570**	6,258
Shares issued		**21,948**	21,477
Shares redeemed		**(36,597)**	(34,094)
Net cash (used in) from financing activities		**(244,591)**	387,278
(Decrease) Increase in cash and cash equivalents		**(15,852)**	30,187
Cash and cash equivalents, beginning of year		**123,612**	93,425
Cash and cash equivalents, end of year		**$ 107,760**	$ 123,612

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, 2019. 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, 2019, were authorized for issue by the Board of Directors on January 16, 2020.

Basis of Measurement

The financial statements have been prepared using the historical cost basis except for financial instruments classified as fair value through profit or loss (FVTPL) or fair value through other comprehensive income (FVOCI).

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 for 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, classification and 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 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 controls the benefits of three registry services, which are structured entities and have been consolidated

On October 31, 2019, the Credit Union's 51% ownership interest in 1626210 Alberta Ltd., was wound up into Servus Credit Union Ltd.

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 14 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

On November 1, 2018, the Credit Union adopted IFRS 9 Financial Instruments (IFRS 9), which replaces the guidance in IAS 39 Financial Instruments: Recognition and Measurement (IAS 39). The following sections outline the current and past accounting policies as well as polices that have remained the same. Refer to Note 4 for the detailed impact of this change.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Policies Applicable Beginning November 1, 2018 (IFRS 9)

Classification and Measurement

All financial assets are measured either at amortized cost, FVOCI or FVTPL based on their contractual cash flow characteristics and the business model for managing the financial assets. All financial instruments are initially measured at fair value. They are recognized at the trade date, when the Credit Union becomes a party to the contractual provisions of the instrument. Transaction costs on financial instruments classified as FVTPL are expensed as incurred. For all other classifications of financial instruments, only initial transaction costs are capitalized.

In order to meet the cash flow characteristics criterion for purposes of classifying a financial asset at amortized cost, the cash flows for the asset must be solely payment of principal and interest (SPPI) on the principal amount outstanding. Principal is defined as the fair value of the asset at initial recognition. Interest for the purpose of this test is defined as the consideration for the time value of money and credit risk, which are most significant elements of interest within the lending arrangement.

The Credit Unions' business models are determined in a manner that reflects how groups of financial assets are managed in order to generate cash flows, that is, they reflect whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Determining business models requires the use of judgment and is based on all relevant evidence available at the date of the assessment.

The Credit Unions' business models are defined as follows:

- Held to collect contractual cash flows;
- Held to collect contractual cash flows and sell;
- Other business models: The objective is not consistent with any of the above mentioned business models and represent business objectives where assets are managed on a fair value basis.

Financial assets are not reclassified following their initial recognition, unless the business model for managing those financial assets changes.

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

Classification and Measurement	Amortized Cost	Fair Value Through Other Comprehensive Income (FVOCI)	Fair Value Through Profit or Loss (FVTPL)
Cash and cash equivalents	▼		
Accounts receivable	▼		
Investments – mortgage backed security bonds		▼	
Investments – term deposits with Alberta Central	▼		
Investments – term deposits with other financial institutions	▼		
Investment shares in entities			▼
Shares in Concentra Trust			▼
Members' loans	▼		
Securitized mortgage pools	▼		
Derivatives – interest rate swaps			▼
Derivatives – equity linked options			▼
Members' deposits	▼		
Trade payables and other liabilities	▼		
Borrowings and securitiziation liabilities	▼		
Investment share liability portion			▼

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Assets Measured at Amortized Cost

Financial assets under the held to collect contractual cash flows business model and with contractual cash flows that pass the SPPI test are measured at amortized cost. The assets are initially recognized at fair value which is the cash consideration to originate or purchase the asset, including any transaction costs, and is subsequently measured at amortized cost using the effective interest rate method. Financial assets measured at amortized cost are reported in the consolidated statement of financial position as cash and cash equivalents, accounts receivable, term deposits in Alberta Central, term deposits held with other financial institutions, and members' loans. Interest is included in the consolidated statement of income as part of net interest income.

For member loans, Expected Credit Losses (ECL) are reported as a deduction in the loan's carrying value and are recognized in the consolidated statement of income as a provision for credit losses.

Financial Assets at Fair Value through Other Comprehensive Income

Financial assets under the held to collect contractual cash flows and sell business model and where contractual cash flows meet the SPPI test are measured at FVOCI. Mortgage-backed security (MBS) bonds that were sold in the year were included in this category. Financial assets at FVOCI are subsequently measured at fair value with gains and losses arising due to changes in fair value recognized in other comprehensive income (OCI). Interest income is included in the consolidated statements of income in net interest income.

Financial Assets and Liabilities at Fair Value through Profit and Loss

Financial assets that are measured at FVTPL fall into two categories:

- Financial assets that are required to be measured at fair value as a result of the business model for managing those assets.
- Financial assets designated by the Credit Union as FVTPL upon initial recognition.

Interest income and expense on these financial assets designated as FVTPL are included in net interest income.

Equity instruments are measured at FVTPL. Fair value changes are recorded as part of other income in the consolidated statement of income.

The liability portion of investment shares and derivative contracts are also measured at FVTPL. Gains and losses arising from changes in fair value are included in the consolidated statement of income as part of net interest income.

In the ordinary course of business, the Credit Union enters into various derivative contracts, including interest rate forwards, swaps, 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.

The Credit Union may also designate any financial asset or liability as FVTPL where the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial Liabilities Measured at Amortized Cost

Financial liabilities that do not meet the criteria for the FVTPL classification, 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.

Impairment of Financial Assets

The Credit Union records an allowance for credit losses for all financial assets that are measured at amortized cost or at FVOCI. This also includes loan commitments and financial guarantee contracts. Equity investments are not subject to impairment. Impairment losses are measured based on the estimated amount and timing of future cash flows, and collateral values.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For loans carried at amortized cost, impairment losses are recognized at each reporting date as an expected credit loss deduction from the financial asset on the consolidated statement of financial position, and as a provision for loan loss on the consolidated statement of income. Losses are based on a three-stage impairment model outlined below.

For financial assets measured at FVOCI, the calculated expected credit loss does not reduce the carrying amount in the consolidated statement of financial position, which remains at fair value. Instead, the allowance is recognized in OCI as an accumulated impairment amount with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is reclassified to profit and loss when the asset is derecognized.

Measurement of Expected Credit Losses

At each reporting date, the Credit Union recognizes an ECL allowance based on an impairment model that comprises three different stages:

- Stage 1: For financial instruments that have not had a significant increase in credit risk since initial recognition and are not considered credit-impaired financial assets at initial recognition, a loss allowance amounting to 12-month expected credit losses is recognized.
- Stage 2: For financial instruments that have had a significant increase in credit risk since initial recognition but are not considered credit-impaired financial assets, a loss allowance amounting to the lifetime expected credit losses is recognized.
- Stage 3: For financial instruments considered credit impaired, a loss allowance amounting to the lifetime expected credit losses continues to be recognized.

Stage 1 and 2 are considered to be performing loans and Stage 3 consists of credit impaired loans. Financial instruments may, over their life, move from one impairment model stage to another based on the improvement or deterioration in their credit risk and the level of expected credit losses. Instruments are categorized based on the change in credit risk from origination (initial recognition) to current reporting date.

Forward-Looking Information

Forward looking information (FLI) is incorporated into the measurement of ECL. The following factors have been determined to be most relevant to the Credit Union:

- Unemployment rate
- House price index
- Three month bond rate

These factors are customized to each major loan grouping, taking into account any lag factors and are updated quarterly. The model then uses a weighted average of three scenarios (best, base, and worst) of the forecast economic factors. These scenarios are intended to address the variety of possible outcomes in the FLI. The factors are forecast out 19 quarters. The weighting of these scenarios is assessed quarterly by a committee comprised of accounting, credit, risk, treasury and banking operations.

As the inputs used may not capture all factors, particular region specific qualitative adjustments may be applied at the reporting date when these differences are considered significantly material.

Expected Life

For loans in Stages 2 and 3, allowances are based on the ECL over the loan's expected remaining lifetime. For most loans, the life is based on the remaining contractual term. Exceptions can apply if the loan has the following characteristics:

- includes both a loan and an undrawn commitment component;
- the lender has the contractual ability to demand repayment and cancel the undrawn commitment; and
- there is no stated contractual term (i.e. credit cards, home equity lines of credit (HELOC's) and revolving lines of credit).

In these cases, ECL's are estimated using a conditional survival curve to determine the expected remaining lifetime.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant Increase in Credit Risk

Movement in the stages relies on judgment to assess whether a loan's credit risk has significantly increased relative to the date the loan was initially recognized. For this assessment, an increase in credit risk is considered at the instrument level.

Assessing for significant increases in credit risk is performed quarterly based on the following factors. Should any of these factors indicate a significant increase in credit risk, the loan is moved to the appropriate stage:

- Credit risk ratings: commercial and agriculture loans use an internal risk rating, personal and residential mortgages use beacon scores
- Loans that are 30 days past due are typically considered to have experienced a significant increase in credit risk (Stage 2)
- Loans past 90 days are typically considered to be in default (Stage 3)
- Other factors known by the Credit Union are also used as appropriate to determine staging if different from above. This can include, but is not limited to, information gathered in the collections process.

If a member's credit risk increases significantly from initial recognition, the loan associated with that member will increase to the next stage level. If these conditions reverse and the member's credit risk recovers to its initial rating or better, the loan will move back a stage.

Financial assets with low credit risk are considered to have a low risk of default, as the borrower is still able to fulfil their contractual obligations, including stress scenarios. These financial assets have been assessed collectively and include Alberta Central term deposits, term deposits held with other financial institutions, accounts receivable, MBS bonds, letters of credit and letters of guarantee.

Default

The Credit Union has defined default as any credit instrument that meets at least one of the following criteria:

- 90 or more days past due, unless other factors rebut this presumption.
- Less than 90 days past due but the Credit Union has information indicating that the member is unlikely to pay their credit obligations in full. Examples include member bankruptcy and breach of covenants.

Write-Offs

The Credit Union seeks to work with Members to bring their accounts to a current status before taking possession of collateral. Amounts written off are charged to the allowance against the carrying value of an impaired loan when there is no realistic prospect of future recovery and all collateral has been realized. Credit cards are written off after 180 days past due. These balances could however still be subject to enforcement actions. In subsequent periods, any recoveries of amounts previously written off are credited to the provision for credit losses in the consolidated statement of income.

Modifications

A modification occurs when a loan's original terms, payment schedule, interest rate and limit are renegotiated or modified, which results in a change to the loan's contractual cash flows. A modification is calculated by taking the net present value of the new contractual cash flows, discounted at the original effective interest rate (EIR) less the current carrying value, with the difference recognized as a gain or loss. The asset will continue to be subject to the same assessments for significant increase in credit risk and stage migration prior to being modified.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Policies Applicable before November 1, 2018 (IAS 39)

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 dependent on the financial instrument's classification.

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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Accounting Policies under both IFRS 9 and IAS 39

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

When the Credit Union has retained all the risks and rewards related to securitization of residential and commercial mortgage loans, the mortgages are not derecognized and a liability for cash proceeds from securitization is recognized in the consolidated statement of financial position.

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

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.

Cash and Cash Equivalents

Cash and cash equivalents, which comprise cash on hand, ATM cash, cash held in foreign currencies, 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.

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.

Derivative financial instruments may also be embedded in other financial instruments. For financial assets containing an embedded derivative, the entire contract is classified based on the business model and contractual terms. Derivative financial instruments embedded in financial liabilities and non-financial contracts 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. 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.

Some of 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 one of following 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).

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. The Credit Union follows procedures in place to dispose of these assets.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 for use in the supply of service to members or for administrative use that has a portion that earns rental income is allocated between investment property and property and equipment, based on the floor space usage when the rental space is more than 10%, and is measured at cost.

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.

The estimated useful lives used for investment property are consistent with property and equipment.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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	3 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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 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.

Members' Shares

Members' share capital includes common and investment shares and are recorded as a part of equity unless there is right to redemption that is unrestricted which is then recorded as a liability. 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 end and paid annually.

Shares that provide the member with the right to request redemption subject to the Credit Union maintaining adequate regulatory capital are initially measured at the fair value of a similar liability without 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Interest Income and Expense

Interest income and expense earned and charged on members' loans, deposits, credit cards 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.

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.

Other Revenue

Accounting Policies Applicable Beginning November 1, 2018, IFRS 15 Revenue from Contracts with Customers (IFRS 15)

Other revenue is recognized based on a principle based five step model to be applied to all contracts with customers, either at a point in time or recognized over time, based on when performance obligations are satisfied.

Credit Card Fees

Revenue from interchange fees related to loyalty points are deferred and are recognized as points are redeemed along with the related expense.

Other Income

Other income such as account service charges, safety deposit box rentals, and income from registries are recognized as services are provided.

Accounting Policies Applicable Before November 1, 2018, IAS 18 – Revenue (IAS 18)

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.

Account Service Charges

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

Patronage Allocation to Members

Patronage allocations to members are recognized in the consolidated statement of 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 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.

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.

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.

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 through 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

IFRS 9 Financial Instruments

On November 1, 2018 ("date of transition"), the Credit Union adopted IFRS 9 Financial Instruments, which replaced the guidance in IAS 39 Financial Instruments: Recognition and Measurement. Adopting IFRS 9 has resulted in changes to accounting policies for the recognition, classification and measurement of financial assets and liabilities, as well as the impairment of financial assets.

IFRS 9 does not require restatement of comparative period financial statements except in limited circumstances related to aspects of hedge accounting. Entities are permitted to restate comparatives as long as hindsight is not applied, however the Credit Union made the decision not to restate comparative period financial information and has recognized any measurement differences between the previous carrying amounts and the new carrying amounts on November 1, 2018, through an adjustment to opening retained earnings. The Credit Union also adopted amendments to IFRS 7 Financial Instruments (IFRS 7): Disclosures introducing expanded qualitative and quantitative disclosures related to IFRS 9.

4. CURRENT AND FUTURE ACCOUNTING CHANGES (CONTINUED)

The impact of IFRS 9 on classification of financial assets and financial liabilities is set out below:

	IAS 39 Measurement Category	IFRS 9 Measurement Category
Cash and cash equivalents	Amortized Cost	Amortized Cost
Accounts receivable	Amortized Cost	Amortized Cost
Investments		
Investments – MBS Bonds	FVOCI	FVOCI
Investments – Alberta Central term deposits	Amortized Cost	Amortized Cost
Investment shares in entities & Concentra Trust	Cost	FVTPL
Members' loans	Amortized Cost	Amortized Cost
Securitized mortgage pools	Amortized Cost	Amortized Cost
Derivative financial assets	FVTPL	FVTPL
Members' deposits	Amortized Cost	Amortized Cost
Trade payables and other liabilities	Amortized Cost	Amortized Cost
Borrowings and securitiziation liabilities	Amortized Cost	Amortized Cost
Investment shares	FVTPL	FVTPL

The Credit Union holds investments in entities (some 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 were previously classified as available for sale and measured at cost less any accumulated impairment losses. Under IFRS 9, this treatment is not available and equity investments need to be measured at FVTPL.

The table below reflects the impact of IFRS 9 on implementation at November 1, 2018 on the consolidated statement of financial position. Reclassifications represent movements of the carrying amount of financial assets and liabilities which have changed their classification. Remeasurement represents changes in the carrying amount of the financial assets and liabilities due to changes in their measurement.

(Canadian $ thousands, except per share amounts)

4. CURRENT AND FUTURE ACCOUNTING CHANGES (CONTINUED)

	As at October 31, 2018 IAS 39 Carrying Amount	Reclassification	Remeasurement	As at November 1, 2018 IFRS 9 Carrying Amount
Assets				
Cash and cash equivalents	$ 123,612	$ –	$ –	$ 123,612
Investments				
Amortized cost	1,093,395	–	–	1,093,395
Available for sale (cost)	301	(301)	–	–
FVOCI	174,432	–	–	174,432
FVTPL	–	301	–	301
Members' loans	14,294,509	–	(1,625)	14,292,884
Income taxes receivable	8,345	–	–	8,345
Assets held for sale	8,086	–	–	8,086
Other assets	19,166	–	–	19,166
Property and equipment	142,936	–	–	142,936
Investment property	5,006	–	–	5,006
Derivative financial assets	5,998	–	–	5,998
Investment in associate	184,587	–	–	184,587
Intangible assets	66,273	–	–	66,273
Deferred income tax assets	607	–	–	607
Total assets	16,127,253	–	(1,625)	16,125,628
Liabilities				
Borrowings	250,000	–	–	250,000
Securitization liabilities	1,329,762	–	–	1,329,762
Members' deposits	12,826,156	–	–	12,826,156
Trade payables and other liabilities	178,301	–	–	178,301
Allowance for off balance sheet credit instruments	–	–	6,778	6,778
Derivative financial liabilities	12,372	–	–	12,372
Investment shares	427	–	–	427
Defined benefit plans	7,356	–	–	7,356
Deferred income tax liabilities	11,404	–	(2,269)	9,135
Total liabilities	14,615,778	–	4,509	14,620,287
Equity				
Share capital	670,275	–	–	670,275
Retained earnings	833,009	–	(6,134)	826,875
Accumulated other comprehensive income	7,217	–	–	7,217
Total equity attributable to members of the Credit Union	1,510,501	–	(6,134)	1,504,367
Non-controlling interest	974	–	–	974
Total equity	1,511,475	–	(6,134)	1,505,341
Total liabilities and equity	$ 16,127,253	$ –	$ (1,625)	$ 16,125,628

(Canadian $ thousands, except per share amounts)

4. CURRENT AND FUTURE ACCOUNTING CHANGES (CONTINUED)

The following table reflects the impact of IFRS 9 on implementation at November 1, 2018 on allowance for credit losses:

	As at October 31, 2018 IAS 39	Remeasurement	As at November 1, 2018 IFRS 9
Residential mortgages	$ 1,648	$ 1,629	$ 3,277
Commercial and agriculture	16,277	5,433	21,710
Consumer and credit card	23,586	(5,437)	18,149
Allowance for off balance sheet credit instruments	–	6,638	6,638
Collectively assessed*	–	140	140
Total	$ 41,511	$ 8,403	$ 49,914

** The amount is included in the allowance for off balance sheet credit instruments*

IFRS 15 Revenue from Contracts with Customers

In the current year, the Credit Union has adopted 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. The revenue from credit card interchange fees are now deferred relating to loyalty points and are recognized as points are redeemed, along with the related expense. No other revenue streams were impacted. There is no opening retained earning impact as a result of adopting IFRS 15.

In the current year, the Credit Union has adopted the following accounting standards and determined that they do not have an impact on the financial statements:

IFRS 2 Share-based Payment

In June 2016, the International Accounting Standards Board (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 liability in a foreign currency.

4. CURRENT AND FUTURE ACCOUNTING CHANGES (CONTINUED)

Future Accounting Changes

Effective for the Credit Union — November 1, 2019

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

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 right of use asset (ROUA) and lease liabilities on the consolidated statement of financial position for most leases. The lessee will also recognize depreciation expense on the lease asset and interest expense on the lease liability in the consolidated statement of income and comprehensive income. There are no significant changes to lessor accounting aside from enhanced disclosure requirements.

The Credit Union has assessed the impact of adopting the standard and concluded that all operating leases will be reclassified as a ROUA and included on the consolidated statement of financial position with a corresponding lease liability of between $50,000 to $60,000 with no impact on opening retained earnings. Depreciation expense on the lease asset and interest expense on the lease liability will be included on the consolidated statement of income which affects timing as well as classification of the expenses. Lease terms will be based on the original lease term along with any expected renewals or early terminations.

The Credit Union has assessed the following accounting standards effective November 1, 2019 and determined that they will not have an impact on the financial statements:

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.

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.

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.

4. CURRENT AND FUTURE ACCOUNTING CHANGES (CONTINUED)

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.

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.

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:

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 clarifying the definition of a business and is 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 2019	As at October 31 2018
Cash on hand	$ 14,992	$ 15,529
ATM cash	9,263	10,346
Cash held in foreign currencies	703	683
Cash with Alberta Central	82,900	97,369
Cheques and items in transit	(98)	(315)
Total	$ 107,760	$ 123,612

6. INVESTMENTS

	As at October 31 2019	As at October 31 2018
Term deposits with Alberta Central	$ 1,191,203	$ 1,090,060
Term deposits with other financial institutions	5,472	–
Mortgage backed security bonds	–	174,079
Other	275	1,022
	1,196,950	1,265,161
Accrued interest	1,960	2,967
	1,198,910	1,268,128
ECL allowance on investments	(2)	–
Total	$ 1,198,908	$ 1,268,128

7. MEMBERS' LOANS

The following table presents the carrying amount of loans and the exposure amount for off-balance sheet items according to the stage in which they are classified as well as the allowance for credit losses:

	Performing		Impaired			
	Stage 1	Stage 2	Stage 3	Total	Allowance for Credit Losses	Total Net of Allowance
As at October 31, 2019						
Residential mortgages	$ 7,591,041	$ 702,643	$ 15,829	$ 8,309,513	$ 4,927	$ 8,304,586
Commercial and agriculture	4,826,939	110,927	84,117	5,021,983	18,860	5,003,123
Consumer loans and credit card	1,111,651	130,332	7,354	1,249,337	15,087	1,234,250
Total member loans	$13,529,631	$ 943,902	$ 107,300	$14,580,833	$ 38,874	$14,541,959
As at October 31, 2019						
Residential mortgages	$ 1,428,179	$ 16,165	$ 1,153	$ 1,445,497	$ 180	$ 1,445,317
Commercial and agriculture	1,038,165	52,203	249	1,090,617	683	1,089,934
Consumer loans and credit card	1,047,694	21,611	913	1,070,218	5,089	1,065,129
Loan commitments and guarantees*	–	46,463	–	46,463	112	46,351
Total off balance sheet credit instruments	$ 3,514,038	$ 136,442	$ 2,315	$ 3,652,795	$ 6,064	$ 3,646,731

**collectively assessed*

(Canadian $ thousands, except per share amounts)

7. MEMBERS' LOANS (CONTINUED)

	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

8. ALLOWANCE FOR CREDIT LOSSES

	Residential Mortgages	**Commercial and Agriculture**	**Consumer and Credit Card**	**Collectively Assessed** [(1)]	**Total**
As at November 1, 2018	**$ 3,407**	**$ 22,526**	**$ 23,841**	**$ 140**	**$ 49,914**
Edson Credit Union amalgamation adjustment	**–**	**–**	**10**	**–**	**10**
Recoveries of previous loan write-offs	**1**	**224**	**5,706**	**–**	**5,931**
Provision charged to net income	**4,480**	**2,660**	**12,705**	**(28)**	**19,817**
	7,888	**25,410**	**42,262**	**112**	**75,672**
Loans written off	**(2,781)**	**(5,867)**	**(22,086)**	**–**	**(30,734)**
As at October 31, 2019	**$ 5,107**	**$ 19,543**	**$ 20,176**	**$ 112**	**$ 44,938**
Presented on Consolidated Statement of Financial Position as:					
Netted with member loans	**4,927**	**18,860**	**15,087**	**–**	**38,874**
Off balance sheet credit instruments [(2)]	**180**	**683**	**5,089**	**112**	**6,064**
Total	**$ 5,107**	**$ 19,543**	**$ 20,176**	**$ 112**	**$ 44,938**

[(1)] Financial guarantees and letters of credit are collectively assessed
[(2)] Off balance sheet credit instruments consisting of undrawn commitments and financial guarantees

The provision charged to net income for October 31, 2019 is:

Loans		$ 19,817
Investments	Note 6	2
Provision for credit losses		**$ 19,819**

(Canadian $ thousands, except per share amounts)

8. ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

The following tables reconcile the opening and closing allowances for loans, by stage, for each major category:

Allowance for credit losses – Residential Mortgages

	Performing		Impaired	
	Stage 1	Stage 2	Stage 3	Total
As at November 1, 2018	$ 1,025	$ 1,927	$ 455	$ 3,407
Transfers				
Stage 1 [(1)]	268	(264)	(4)	–
Stage 2 [(1)]	(1,571)	1,691	(120)	–
Stage 3 [(1)]	(203)	(948)	1,151	–
New originations [(2)]	265	486	–	751
Repayments [(3)]	(127)	(339)	1,986	1,520
Remeasurements [(4)]	1,890	126	193	2,209
Loans written off	–	–	(2,781)	(2,781)
Recoveries	–	–	1	1
As at October 31, 2019	$ 1,547	$ 2,679	$ 881	$ 5,107
Presented on Consolidated Statement of Financial Position as:				
Member loans	1,428	2,622	877	4,927
Off balance sheet credit instruments	119	57	4	180
Total	$ 1,547	$ 2,679	$ 881	$ 5,107

(1) Stage transfers represent movement between stages
(2) New originations relate to new loans recognized during the period and reflect movements into different stages within the period
(3) Repayments relate to loan fully repaid or derecognized and excluded loans written off where a credit loss was incurred
(4) Represents the change in the allowance due to changes in economic factors, risk and model parameters

Allowance for credit losses – Commercial and Agriculture

	Performing		Impaired	
	Stage 1	Stage 2	Stage 3	Total
As at November 1, 2018	$ 2,811	$ 565	$ 19,150	$ 22,526
Transfers				
Stage 1 [(1)]	99	(94)	(5)	–
Stage 2 [(1)]	(489)	1,529	(1,040)	–
Stage 3 [(1)]	(6,752)	(4,809)	11,561	–
New originations [(2)]	958	18	93	1,069
Repayments [(3)]	(381)	(325)	(2,502)	(3,208)
Remeasurements [(4)]	6,980	4,437	(6,618)	4,799
Loans written off	–	–	(5,867)	(5,867)
Recoveries	–	–	224	224
As at October 31, 2019	$ 3,226	$ 1,321	$ 14,996	$ 19,543
Presented on Consolidated Statement of Financial Position as:				
Member loans	2,668	1,300	14,892	18,860
Off balance sheet credit instruments	558	21	104	683
Total	$ 3,226	$ 1,321	$ 14,996	$ 19,543

(1) Stage transfers represent movement between stages
(2) New originations relate to new loans recognized during the period and reflect movements into different stages within the period
(3) Repayments relate to loan fully repaid or derecognized and excluded loans written off where a credit loss was incurred
(4) Represents the change in the allowance due to changes in economic factors, risk and model parameters

(Canadian $ thousands, except per share amounts)

8. ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

Allowance for credit losses – Consumer and Credit Card

	Performing		Impaired	
	Stage 1	Stage 2	Stage 3	Total
As at November 1, 2018	$ 7,316	$ 10,701	$ 5,824	$ 23,841
Edson CU opening adjustment	10	–	–	10
Transfers				
Stage 1 [1]	1,091	(1,068)	(23)	–
Stage 2 [1]	(7,539)	8,310	(771)	–
Stage 3 [1]	(1,456)	(9,847)	11,303	–
New originations [2]	3,136	627	14	3,777
Repayments [3]	(753)	(1,409)	12,087	9,925
Remeasurements [4]	5,357	2,119	(8,473)	(997)
Loans written off	–	–	(22,086)	(22,086)
Recoveries	–	–	5,706	5,706
As at October 31, 2019	$ 7,162	$ 9,433	$ 3,581	$ 20,176
Presented on Consolidated Statement of Financial Position as:				
Member loans	3,825	7,786	3,476	15,087
Off balance sheet credit instruments	3,337	1,647	105	5,089
Total	$ 7,162	$ 9,433	$ 3,581	$ 20,176

[1] Stage transfers represent movement between stages
[2] New originations relate to new loans recognized during the period and reflect movements into different stages within the period
[3] Repayments relate to loan fully repaid or derecognized and excluded loans written off where a credit loss was incurred
[4] Represents the change in the allowance due to changes in economic factors, risk and model parameters

The following tables present the Credit Union's allowance as at October 31, 2018 under IAS 39:

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

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

(Canadian $ thousands, except per share amounts)

9. CREDIT QUALITY OF MEMBERS' LOANS

The following table presents the gross carrying amount of the loans subject to impairment by risk category:

As at October 31, 2019	Residential Mortgages	Commercial and Agriculture	Consumer and Credit Card	Total
Risk Categories				
Very low risk	$ **2,829,934**	$ **8,860**	$ **301,905**	$ **3,140,699**
Low risk	**3,550,181**	**2,337,708**	**472,250**	**6,360,139**
Medium risk	**1,263,650**	**2,536,718**	**232,263**	**4,032,631**
High risk	**649,919**	**54,580**	**235,565**	**940,064**
Impaired	**15,829**	**84,117**	**7,354**	**107,300**
Total loans	$ **8,309,513**	$ **5,021,983**	$ **1,249,337**	$ **14,580,833**

The following table presents the amount of undrawn loan commitments subject to impairment by risk category:

As at October 31, 2019	Residential Mortgages	Commercial and Agriculture	Consumer and Credit Card	Loan Commitments and Guarantees	Total
Risk Categories					
Very low risk	$ 955,388	$ 40,586	$ 567,487	$ –	$ 1,563,461
Low risk	432,752	857,156	332,329	–	1,622,237
Medium risk	48,302	191,651	69,619	46,463	356,035
High risk	7,902	975	99,870	–	108,747
Impaired	1,153	249	913	–	2,315
Total loan commitments	$ 1,445,497	$ 1,090,617	$ 1,070,218	$ 46,463	$ 3,652,795

(Canadian $ thousands, except per share amounts)

9. CREDIT QUALITY OF MEMBERS' LOANS (CONTINUED)

The following table outlines the ranges used for the categorization of risk assessments:

Risk Assessment	Residential Mortgage Beacon Score Range	Consumer & Credit Card Beacon Score Range	Commercial & Agriculture Risk Rating Range
Very low risk	800 +	800 +	1
Low risk	681 – 799	701 –799	2 and 3
Medium risk	625 –680	650 –700	4, 5
High risk/impaired	624 or less	649 or less	6 ,7, 8, and 9

The following analysis includes individual loans that are impaired, or potentially impaired, based on the age of repayments outstanding in determining the specific allowance as at October 31, 2018 under IAS 39:

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

- 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, 2019	Up to 30 Days	31 – 59 Days	60 – 89 Days	Over 90 Days	Total
Stage 1					
Consumer and credit card	**$ 19,001**	**$ –**	**$ –**	**$ –**	**$ 19,001**
Commercial and agriculture	**45,263**	**–**	**–**	**–**	**45,263**
Residential mortgages	**79,391**	**–**	**–**	**–**	**79,391**
Stage 2 [1]					
Consumer and credit card	**10,768**	**11,586**	**4,313**	**440**	**27,107**
Commercial and agriculture	**360**	**46,956**	**1,357**	**10,299**	**58,972**
Residential mortgages	**38,037**	**39,277**	**12,909**	**12,428**	**102,651**
Stage3					
Consumer and credit card	**–**	**–**	**–**	**7,209**	**7,209**
Commercial and agriculture	**248**	**1,887**	**5,577**	**48,470**	**56,182**
Residential mortgages	**–**	**–**	**–**	**15,640**	**15,640**
Total	**$ 193,068**	**$ 99,706**	**$ 24,156**	**$ 94,486**	**$ 411,416**

[1] *Due to the change in accounting estimate discussed in Note 1, there can be loans over 90 days that remain in Stage 2.*

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

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.

	As at October 31 2019	As at October 31 2018
Loans by Security		
Insured loans and mortgages	**$ 2,858,878**	$ 2,801,700
Secured by mortgage	**10,039,077**	9,416,496
Secured by other	**1,135,922**	1,018,589
Unsecured loans	**311,585**	866,836
Unsecured mastercard	**235,371**	232,399
Total	**$ 14,580,833**	$ 14,336,020

In the current year, with the Credit Union's adoption of their IFRS 9 ECL model, the Credit Union has refined their process to compile data related to security on loans. This change has been reflected in the October 31, 2019 balances disclosed above. The impact on the prior year comparative amounts is impracticable to determine.

(Canadian $ thousands, except per share amounts)

10. ASSETS HELD FOR SALE

		As at October 31 2019		As at October 31 2018
Foreclosed property	$	**9,697**	$	7,047
Other land and buildings		**3,114**		1,039
Total	$	**12,811**	$	8,086

Management has concluded that an impairment on assets held for sale was required to be recorded by the Credit Union. An impairment loss of $693 (2018 – $909) has been recorded in the consolidated statement of income.

11. OTHER ASSETS

		As at October 31 2019		As at October 31 2018
Accounts receivable	$	**11,076**	$	5,551
Prepaid items		**20,524**		13,615
Total	$	**31,600**	$	19,166

(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, 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
Amalgamation additions	347	1,749	–	275	51	–	2,422
Additions	–	2,256	609	3,171	3,806	(43)	9,799
Disposals	(2)	(701)	(635)	(2,783)	(1,611)	–	(5,732)
Transfer to assets held for sale	(381)	(3,424)	–	(43)	–	–	(3,848)
Transfer to investment property	–	(141)	–	–	–	–	(141)
Other transfers	–	–	–	110	(141)	–	(31)
Balance as at October 31, 2019	**$ 26,843**	**$ 157,302**	**$ 41,485**	**$ 30,238**	**$ 22,083**	**$ 853**	**$ 278,804**
Accumulated Depreciation							
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
Amalgamation additions	–	696	–	243	8		947
Depreciation	–	4,901	1,960	2,251	2,399	212	11,723
Disposals	–	(518)	(635)	(2,624)	(1,549)	–	(5,326)
Transfer to assets held for sale	–	(1,731)	–	(40)	–	–	(1,771)
Transfer from investment property	–	48	–	–	–	–	48
Other transfers	–	–	–	90	(121)	–	(31)
Balance as at October 31, 2019	**$ –**	**$ 71,226**	**$ 30,132**	**$ 22,076**	**$ 15,324**	**$ 231**	**$ 138,989**
Net Book Value							
At October 31, 2018	26,879	89,733	12,704	7,352	5,391	877	142,936
At October 31, 2019	**26,843**	**86,076**	**11,353**	**8,162**	**6,759**	**622**	**139,815**

(Canadian $ thousands, except per share amounts)

13. INVESTMENT PROPERTY

	Land	Buildings	Total
Cost			
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
Transfer from property and equipment	–	141	141
Disposals	–	(262)	(262)
Balance as at October 31, 2019	**$ 1,645**	**$ 8,389**	**$ 10,034**
Accumulated Depreciation			
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
Depreciation	–	349	349
Transfer to property and equipment	–	(48)	(48)
Disposals	–	(33)	(33)
Balance as at October 31, 2019	**$ –**	**$ 5,417**	**$ 5,417**
Net Book Value			
At October 31, 2018	1,645	3,361	5,006
At October 31, 2019	**1,645**	**2,972**	**4,617**

During the year, one condo unit that was originally acquired to provide housing in the town of Slave Lake was subsequently sold for a loss of $33, which was included in general operating expenses in the consolidated statement of income.

The fair value of investment property held is $10,831 (2018 – $11,239) and is determined by external valuation on a rotating basis every three years.

Income Related To Investment Property	**October 31 2019**	October 31 2018
Rental income	**$ 1,194**	$ 1,083
Direct operating expense from property generating rental income	**868**	955
Total	**$ 326**	$ 128

Future rental payments receivable are as follows:

	October 31 2019	October 31 2018
Less than 1 year	**$ 719**	$ 768
Between 1 and 5 years	**806**	1,076
More than 5 years	**7**	–
Total	**$ 1,532**	$ 1,844

(Canadian $ thousands, except per share amounts)

14. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

As at October 31, 2019	Equity-linked Options	Interest Rate Swaps	Total
Derivative Financial Assets			
Gross financial assets before offsetting	$ –	$ 17,722	$ 17,722
Gross financial liabilities before offsetting	–	(16,701)	(16,701)
Net derivative financial assets presented in the statement of financial position	–	1,021	1,021
Amounts not subject to enforceable netting arrangements	7,218	–	7,218
Total	$ 7,218	$ 1,021	$ 8,239
Derivative Financial Liabilities			
Gross financial assets before offsetting	$ –	$ (10,091)	$ (10,091)
Gross financial liabilities before offsetting	–	11,881	11,881
Net derivative financial liabilities presented in the statement of financial position	–	1,790	1,790
Amounts not subject to enforceable netting arrangements	7,103	–	7,103
Total	$ 7,103	$ 1,790	$ 8,893

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 financial assets before offsetting	$ –	$ (10,533)	$ (10,533)
Gross financial liabilities before offsetting	–	16,963	16,963
Net derivative financial liabilities presented in 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

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 2019	As at October 31 2018
Interest rate swaps receive fixed, pay floating	$ 800,000	$ 200,000	$ 1,000,000	$ 2,000,000	$ 1,000,000
Equity-linked options	–	30,380	46,025	76,405	87,875
Total	$ 800,000	$ 230,380	$ 1,046,025	$ 2,076,405	$ 1,087,875

(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 liabilities that pay a return to the deposit holder based on the change in equity market indexes. The embedded derivative in the term deposit liability 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 fluctuations in interest rates, the fair value of interest rate swaps for the Credit Union may be presented as an asset or liability on the consolidated statement of financial 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, 2019, is 57.9% (2018 – 58.1%).

	As at October 31 2019	As at October 31 2018
Alberta Central		
Opening balance	**$ 184,587**	$ 172,900
Purchase of additional shares	**3,940**	1,950
Share of profits	**7,897**	7,792
Share of other comprehensive income	**2,531**	12,401
Distributions	**(5,160)**	(10,456)
Total	**$ 193,795**	$ 184,587

Financial Information for Alberta Central	**As at October 31 2019 (Unaudited)**	As at October 31 2018 (Unaudited)
Assets	**$ 3,463,070**	$ 3,329,955
Liabilities	**3,120,112**	3,003,589
Revenues	**61,890**	45,955
Income before distributions	**11,367**	9,103
Other comprehensive income	**4,377**	21,470

(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 with associate is as follows:

Alberta Central		As at October 31 2019		As at October 31 2018
Cash	$	82,900	$	97,368
Term deposits		1,191,203		1,090,060
Accrued interest on term deposits		1,895		2,606
Other assets		2,032		2,720
Trade payables and other liabilities		1,581		2,074

		2019		2018
Interest income	$	20,352	$	16,677
Interest expense		1,526		1,416
Other income		729		642
Data processing, memberships fees and other		10,596		10,544

(Canadian $ thousands, except per share amounts)

16. INTANGIBLE ASSETS

	Purchased Software & Other	Internally Developed Software	Computer Software Under Development	Credit Card Related Intangible	Total
Cost					
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
Additions	692	112	4,432	–	5,236
Disposals	(219)	(1,080)	–	–	(1,299)
Impairment	–	–	(433)	–	(433)
Transfers	31	5,138	(5,138)	–	31
Balance as at October 31, 2019	**$ 3,822**	**$ 76,665**	**$ 1,004**	**$ 28,707**	**$ 110,198**
Accumulated Amortization					
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
Amortization	638	7,044	–	2,871	10,553
Disposals	(126)	(1,080)	–	–	(1,206)
Transfers	31	–	–	–	31
Balance as at October 31, 2019	**$ 2,578**	**$ 42,166**	**$ –**	**$ 5,024**	**$ 49,768**
Net Book Value					
As at October 31, 2018	1,283	36,293	2,143	26,554	66,273
As at October 31, 2019	**1,244**	**34,499**	**1,004**	**23,683**	**60,430**

Management has concluded that an impairment on other intangible assets was required to be recorded by the Credit Union. An impairment loss of $433 (2018 – $16) has been recorded in the consolidated statement of income.

(Canadian $ thousands, except per share amounts)

17. INCOME TAXES

Income tax expense:

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

Income Tax Expense		2019		2018
Current tax expense				
Based on current year taxable income	$	**30,238**	$	38,404
Adjustments for under (over) provision in prior periods		**(184)**		141
Sub total		**30,054**		38,545
Deferred tax expense				
Origination and reversal of temporary differences		**2,415**		(8,271)
Adjustments for (over) under provision in prior periods		**25**		(1,549)
Sub total		**2,440**		(9,820)
Total	$	**32,494**	$	28,725

Reconciliation of effective tax rate:

		2019			2018	
Income before income taxes	$	**133,087**		$	115,085	
Income tax expense based on statutory rate		**35,494**	**26.67%**		31,074	27.00%
Effect on non-deductible expenses		**(96)**	**(0.07%)**		155	0.13%
Effect of tax rate change		**(1,588)**	**(1.19%)**		–	0.00%
Adjustments for (over) provision in prior periods		**(159)**	**(0.12%)**		(1,408)	(1.22%)
Non-taxable gain on amalgamations		**(1,407)**	**(1.06%)**		(1,138)	(0.99%)
Other		**250**	**0.19%**		42	0.04%
Total income tax expense	$	**32,494**	**24.42%**	$	28,725	24.96%

(Canadian $ thousands, except per share amounts)

17. INCOME TAXES (CONTINUED)

Deferred tax assets and liabilities:

The movement in deferred tax assets and liabilities is:

Deferred Tax Assets and Liabilities	As at October 31 2018	IFRS 9 Remeasure-ment	Recognized in Net Income	Recognized in OCI	As at October 31 2019
Servus deferred tax asset:					
Mortgage backed security bonds	607	–	–	(607)	(0)
Total	607	–	–	(607)	(0)
Servus deferred tax liability:					
Member loans	6,967	2,269	(2,449)	–	6,787
Property and equipment	(16,754)	–	3,432	–	(13,322)
Derivative instruments	1,736	–	(1,754)	–	(18)
Investment in associate	(10,802)	–	589	(200)	(10,413)
Employee benefits & other payables	7,449	–	(2,258)	33	5,224
Total	(11,404)	2,269	(2,440)	(167)	(11,742)
Net consolidated deferred tax	$ (10,797)	$ 2,269	$ (2,440)	$ (774)	$ (11,742)

	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)

(Canadian $ thousands, except per share amounts)

18. BORROWINGS

	Average Effective Interest Rate	As at October 31 2018	Cash Inflows	Cash Outflows	As at October 31 2019	Interest Payments
Line of credit	Alberta Central prime	$ –	$ 1,233,149	$ (1,233,149)	$ –	$ 241
Term loans	2.6561%	250,000	650,000	(700,000)	200,000	8,133
Total		**$ 250,000**	**$ 1,883,149**	**$ (1,933,149)**	**$ 200,000**	**$ 8,374**

	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

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 favor 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.

(Canadian $ thousands, except per share amounts)

18. BORROWINGS (CONTINUED)

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 $200,000 loan facility that was funded with CIBC on February 1, 2018.

The facility consist of two remaining tranches that are non-revolving credit facilities and interest is currently calculated at a spread above the 30 day banker's acceptance rate. The remaining credit facilities are structured in two different tranches repayable from two to four 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 favor of CIBC, creating a floating charge over eligible residential mortgages of the Credit Union.

19. SECURITIZATION LIABILITIES

	Maturity Date	Interest Rate	As at October 31 2019	As at October 31 2018
Securitization liabilities	Nov 3, 2019 to Dec 1, 2028	0.9900% to 2.475%	**$ 1,144,015**	$ 1,329,762

Securitization liabilities interest payments for the year are $26,442 (2018 –$20,199).

Securitization of residential and commercial 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 carrying amount as at October 31, 2019, of the associated residential and commercial mortgages held as security is $1,396,839 (2018 – $1,416,344). 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 2019	As at October 31 2018
Demand accounts	**$ 6,653,801**	$ 6,504,204
Term deposits	**4,346,578**	4,381,486
Registered plans	**2,056,077**	1,881,169
Other deposits	**13,021**	12,492
	13,069,477	12,779,351
Accrued interest	**61,920**	46,805
Total	**$ 13,131,397**	$ 12,826,156

(Canadian $ thousands, except per share amounts)

21. TRADE PAYABLES AND OTHER LIABILITIES

		As at October 31 2019		As at October 31 2018
Cheques and other items in transit	$	21,810	$	14,682
Accounts payable		126,542		117,080
Credit card points liability		8,307		8,847
Dividend and patronage to members		31,426		30,902
Deferred income		6,025		5,737
Obligations under finance lease		639		878
Legal provisions		314		175
Total	$	195,063	$	178,301

In the ordinary course of business, the Credit Union and its subsidiaries are involved in various legal and regulatory actions. The Credit Union establishes legal provisions when it becomes probable that the Credit Union will incur a loss and the amount can be reliably estimated. The Credit Union's provisions represent the Credit Union's best estimates based upon currently available information for actions for which estimates can be made.

Legal and Contractual Claims		
Balance as at November 1, 2018	$	175
Additional provisions recognized		389
Amounts incurred and charged against existing provisions		(152)
Unused amounts reversed		(98)
Balance as at October 31, 2019	$	314

22. EMPLOYEE BENEFITS

		2019		2018
Short-term employee benefits	$	193,342	$	189,288
Post-employment benefits		9,465		8,984
Termination benefits		2,024		1,173
Total	$	204,831	$	199,445

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		2019		2018
Net benefit plan cost in net income								
Current service cost	$	165	$	–	$	165	$	163
Interest cost		174		65		239		249
Total		339		65		404		412
Defined contribution registered retirement savings plan – Credit Union contributions		9,483		–		9,483		9,014
Total		9,822		65		9,887		9,426
Actuarial loss (gain) recognized in other comprehensive income		992		(809)		183		58
Total	$	10,814	$	(744)	$	10,070	$	9,484

(Canadian $ thousands, except per share amounts)

22. EMPLOYEE BENEFITS (CONTINUED)

Accrued Benefit Obligation and Liability	**Pension Plans**	**Other Benefit Plans**	**As at October 31 2019**	As at October 31 2018
Unfunded accrued benefit obligation				
Balance, beginning of year	**$ 5,394**	**$ 1,962**	**$ 7,356**	$ 7,219
Current service cost	**165**	**–**	**165**	163
Interest cost	**174**	**65**	**239**	249
Benefits paid	**(247)**	**(83)**	**(330)**	(344)
Actuarial loss (gain)	**327**	**(202)**	**125**	69
Balance, end of year	**$ 5,813**	**$ 1,742**	**$ 7,555**	$ 7,356

	Pension Plans	**Other Benefit Plans**	**2019**	2018
Included in personnel expense				
Current service cost	**$ 165**	**$ –**	**$ 165**	$ 163
Interest cost	**174**	**65**	**239**	249
Benefits paid	**(247)**	**(83)**	**(330)**	(344)
Total	**$ 92**	**$ (18)**	**$ 74**	$ 68

	Pension Plans		**Other Benefit Plans**	
	2019	2018	**2019**	2018
Discount rate	**2.80%**	3.50%	**2.70%**	3.40%

Changes in the assumed health care cost trend rates for the post-retirement benefit plans for the year ended October 31, 2019, are:

Effect on Inflation:	**1% increase**	**1% decrease**
Accrued benefit obligation	$ 6	$ 201

Experience Adjustments	**2019**	2018
Accrued benefit obligation and plan deficit	**$ 7,555**	$ 7,356
Experience loss	**125**	69
Tax (recovery)	**(33)**	(18)
Net experience loss	**92**	51

Defined benefit contributions expected to be paid in 2020	**$ 330**

(Canadian $ thousands, except per share amounts)

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.

	Issued and Outstanding as at October 31 2018	Issued	Redeemed and Transferred	Dividends Declared	Issued and Outstanding as at October 31 2019	Investment Share Liability Portion
Common shares total	$ 550,767	$ 23,534	$ (32,764)	$ 19,256	$ 560,793	$ –
Investment shares						
Series A	53,091	–	(1,372)	2,397	54,116	–
Series B	8,171	–	(429)	359	8,101	–
Series C	20,825	–	(847)	925	20,903	–
Series D	32,163	–	(940)	1,447	32,670	–
Series E	4,294	–	(187)	210	4,317	418
Series F	591	–	(39)	26	578	–
Series G	373	–	(19)	16	370	–
Investment shares total	$ 119,508	$ –	$ (3,833)	$ 5,380	$ 121,055	$ 418
Share capital total	$ 670,275	$ 23,534	$ (36,597)	$ 24,636	$ 681,848	$ –

(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	$ –

Total Patronage and Dividends Payable in Cash or Shares	**2019**	2018
Patronage allocation to members in cash	**$ 32,370**	$ 30,821
Common share dividend	**19,256**	18,146
Investment share dividend	**5,380**	5,147
	$ 57,006	$ 54,114

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 (%)	**2019**	2018
Common share	**3.65%**	3.50%
Investment share	**4.65%**	4.50%

24. INVESTMENT INCOME

	2019	2018
Investment income on loans and receivables other than members' loans	**$ 24,938**	$ 20,797
Unrealized gain (loss) on derivative instruments	**6,552**	(1,975)
Realized (loss) on derivative instruments	**(3,413)**	(2,430)
Total	**$ 28,077**	$ 16,392

25. OTHER INTEREST EXPENSE

	2019	2018
Term loans	**$ 8,083**	$ 5,538
Line of credit	**241**	161
Securitization liabilities	**25,630**	24,062
Other	**9**	–
Total	**$ 33,963**	$ 29,761

(Canadian $ thousands, except per share amounts)

26. OTHER INCOME

		2019		2018
Commissions and fees	$	54,977	$	53,445
Account service charges		35,040		34,962
Credit card fee revenue		25,178		17,787
Foreign exchange income		2,982		3,418
Operating lease income		933		939
Gain on amalgamations		3,814		4,214
Gain on sale of mortgage backed security bonds		156		–
Other		1,207		(611)
Total	$	124,287	$	114,154

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. In the current year, several changes were made to the calculation of total capital with an effective date of November 1, 2018; the inputs to primary capital and secondary capital for the current year are noted below.

(Canadian $ thousands, except per share amounts)

27. CAPITAL MANAGEMENT (CONTINUED)

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. As at October 31, 2019, and 2018, the Credit Union's capital ratio was greater than the minimum requirement.

The chart below details the amounts that are included in the 2019 and 2018 capital calculations. Inputs that are not relevant to the calculation for each respective year have been denoted as NA. Regulator and internal management capital requirements are noted after this chart.

	As at October 31 2019	As At October 31 2018
Primary Capital:		
Retained earnings [1]	**$ 909,369**	$ 833,009
Derivative assets and liabilities fair value [1]	**NA**	6,374
Investments fair value [1]	**NA**	3,581
Net share of associate's assets [1]	**NA**	(40,725)
Common shares	**560,793**	550,767
Investment shares (qualifying as primary)	**109,326**	119,935
Accumulated other comprehensive income	**11,097**	NA
Non-controlling interest	**–**	NA
Total primary capital	**1,590,585**	1,472,941
Secondary Capital:		
Credit loss allowance –performing	**25,482**	24,004
Deferred income tax liabilities	**11,742**	11,404
Investment shares (qualifying as secondary)	**12,147**	NA
Total secondary capital	**49,371**	35,408
Deductions From Primary Capital:		
Intangible assets	**60,430**	66,273
Deferred income tax assets	**–**	607
Subsidiary and affiliate investments [2]	**45,993**	NA
Total deductions from capital	**106,423**	66,880
Total capital available	**$ 1,533,533**	$ 1,441,469
Capital as % of Risk Weighted Assets		
Total capital as % of risk weighted assets	**16.72%**	16.00%
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	**9.40%**	8.93%
Legislated minimum	**4.00%**	4.00%

[1] The sum of these items is the adjusted retained earnings from 2018 of $ 802,239.

[2] Subsidiary and affiliate investments was deducted from primary capital in 2018 through adjusted retained earnings as net share of associate's assets.

(Canadian $ thousands, except per share amounts)

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 $46,463. 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.

Commitments to Extend Credit	**As at October 31 2019**	As at October 31 2018
Original term to maturity of one year or less	**$ 3,537,663**	$ 3,215,109
Original term to maturity of more than one year	**22,206**	22,434
Total	**$ 3,559,869**	$ 3,237,543

(Canadian $ thousands, except per share amounts)

28. GUARANTEES, COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

Property and Equipment and Intangible Assets Expenditure Commitments		As at October 31 2019		As at October 31 2018
Total contractual amount	$	–	$	309
Cost to date		–		168
Remaining commitment	$	–	$	141

The Credit Union has no outstanding construction contracts, therefore no commitments are reported as at October 31, 2019.

The Credit Union also has a callable unfunded capital commitment of $128 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	$	10,063	$	12,736	$	22,799
Between 1 and 5 years		25,973		15,205		41,178
After 5 years		9,091		4,471		13,562
Total	$	45,127	$	32,412	$	77,539

(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.

	Note	As at October 31, 2019 Carrying Value	Fair Value	Fair Value Difference
Financial Instrument Assets				
Cash and cash equivalents	a	$ 107,760	$ 107,760	$ –
Interest bearing deposits with financial institutions	c, g	1,198,634	1,198,748	114
Assets at amortized cost	e	5	5	–
Assets at fair value through profit or loss	d	8,508	8,508	–
Members' loans	b, c, g	14,541,959	14,570,135	28,176
Other	a	11,076	11,076	–
		15,867,942	15,896,232	28,290
Financial Instrument Liabilities				
Members' deposits	b, c	13,131,397	13,144,699	(13,302)
Liabilities at fair value through profit or loss	d	8,893	8,893	–
Borrowings	a	200,000	200,000	–
Securitization liabilities	c	1,144,015	1,154,624	(10,609)
Payables and other financial liabilities	a	195,166	195,166	–
Allowance for off balance sheet credit instruments	g	6,064	6,064	–
		$ 14,685,535	$ 14,709,446	$ (23,911)

	Note	As at October 31, 2018 Carrying Value	Fair Value	Fair Value Difference
Financial Instrument Assets				
Cash and cash equivalents	a	$ 123,612	$ 123,612	$ –
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	–
		15,697,798	15,586,337	(111,461)
Financial Instrument Liabilities				
Members' deposits	b, c	12,826,156	12,814,471	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
Payables and other financial liabilities	a	178,552	178,552	–
		$ 14,596,842	$ 14,551,959	$ 44,883

(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, shares in other entities, and investment share liability 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.

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

g) Provisions and allowances use forward-looking information in the calculation of expected credit losses.

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, 2019	Level 1	Level 2	Level 3	Total
Derivative assets	$ –	$ 8,239	$ –	$ 8,239
Investment shares in entities	–	–	42	42
Shares in Concentra Trust	–	–	227	227
Financial assets held at fair value	**$ –**	**$ 8,239**	**$ 269**	**$ 8,508**
Member shares – Series E	–	(418)	–	(418)
Derivative liabilities	–	(8,893)	–	(8,893)
Financial liabilities held at fair value	**$ –**	**$ (9,311)**	**$ –**	**$ (9,311)**

Fair value measurements using Level 3 inputs	
Balance at October 31, 2018	$ –
Remeasurement due to accounting policy change	301
Balance as at November 1, 2018	301
Fair value through profit and (loss)	(39)
Purchases	11
Sales	(4)
Balance at October 31, 2019	**$ 269**

(Canadian $ thousands, except per share amounts)

29. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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	$ –

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. The Credit Unions' products with credit risk include members' loans, investments, guarantees, letters of credit, debt securities, and derivatives.

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 members' loans.

Objectives, Policies and Processes

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

- A conservative credit risk appetite based on accepting risk which can be understood, measured, is transparent and can be managed
- A diversified portfolio to minimize industry and concentration risk.
- Prudent lending risk policies, supporting safety and soundness of the credit union.
- Ongoing review of risk through account monitoring, financial covenant testing, and credit reviews.

(Canadian $ thousands, except per share amounts)

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk

Market risk arises from changes in interest rates and foreign-exchange rates that affect the Credit Union's income. The Credit Union's objective is to earn an acceptable return on these portfolios, without taking unreasonable risk, while meeting members' needs.

Interest Rate Risk

The Credit Union's risk position is measured by the difference between interest rate sensitive assets and liabilities. 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 the income sensitivity analysis (Note 31) and gap analysis, which shows the sensitivity between interest rate sensitive assets and liabilities.

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, 2018, there have been 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.

		2019		2018
Before Tax Impact Of:				
1% increase in rates	**$**	**500**	$	12,283
1% decrease in rates	**$**	**(2,651)**	$	(16,731)

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, 2019, the Credit Union's net difference between assets and liabilities in foreign currencies was $(818) (2018 – $1,129).

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.

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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
- Monthly liquidity coverage ratio (LCR) analysis and reporting

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 and Alberta Central bylaws. Statutory liquidity deposits must be held with Alberta Central at a minimum 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 2019, the Credit Union's liquidity as at October 31, 2019, exceeds the minimum requirement.

Under the Liquidity Policy and Regulations, the Credit Union is required to maintain and report LCR monthly. LCR is calculated as the Credit Union's high quality liquid assets divided by net cash outflows over a 30-day stress scenario. High Quality Liquid Assets (HQLA) are assets that can be easily converted into cash at little or no loss of value and include eligible investments held as liquidity reserve deposits at Alberta Central. The Credit Union seeks to maintain this ratio greater than or equal to 100 basis points. During the year the Credit Union maintained internal liquidity adequacy targets that exceeded regulatory requirements.

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

(Canadian $ thousands, except per share amounts)

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

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 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.

As at October 31, 2019	**Non-Maturities**	**Less Than 1 Year**	**1 – 3 Years**	**3 – 5 Years**	**Over 5 Years**	**Total**
Financial Assets						
Cash and cash equivalents	**$ 107,760**	**$ –**	**$ –**	**$ –**	**$ –**	**$ 107,760**
Investments	**273**	**1,198,635**	**–**	**–**	**–**	**1,198,908**
Members' loans	**2,493,184**	**4,019,226**	**5,345,802**	**2,557,435**	**126,312**	**14,541,959**
Accounts receivable	**–**	**10,789**	**–**	**–**	**–**	**10,789**
Total financial assets	**$ 2,601,217**	**$ 5,228,650**	**$ 5,345,802**	**$ 2,557,435**	**$ 126,312**	**$ 15,859,416**
Financial Liabilities						
Members' deposits	**7,042,548**	**4,248,070**	**1,605,896**	**233,798**	**1,085**	**13,131,397**
Trade payables and other liabilities	**418**	**188,724**	**–**	**–**	**–**	**189,142**
Borrowings	**–**	**–**	**100,000**	**100,000**	**–**	**200,000**
Securitization liabilities	**–**	**381,074**	**556,041**	**202,740**	**4,160**	**1,144,015**
Total financial liabilities	**$ 7,042,966**	**$ 4,817,868**	**$ 2,261,937**	**$ 536,538**	**$ 5,245**	**$ 14,664,554**
Net maturities	**$ (4,441,749)**	**$ 410,782**	**$ 3,083,865**	**$ 2,020,897**	**$ 121,067**	**$ 1,194,862**

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	$ 123,612	$ –	$ –	$ –	$ –	$ 123,612
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	$ 2,731,757	$ 4,967,653	$ 5,055,920	$ 2,825,204	$ 110,875	$ 15,691,409
Financial Liabilities						
Members' deposits	6,905,719	3,819,839	1,872,902	226,605	1,091	12,826,156
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	$ 6,906,146	$ 4,360,497	$ 2,681,370	$ 629,630	$ 1,091	$ 14,578,734
Net maturities	$ (4,174,389)	$ 607,156	$ 2,374,550	$ 2,195,574	$ 109,784	$ 1,112,675

(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, 2019	Floating Rate	0-3 Months	3-6 Months	6-12 Months	More Than 1 Year	Non Interest Sensitive	Total
Assets							
Cash and cash equivalents	$ 82,900	$ –	$ –	$ –	$ –	$ 24,860	$ 107,760
Effective yield (%)	*0.25%*	–	–	–	–	–	*0.19%*
Investments in associate	–	–	–	–	–	193,795	193,795
Investments	–	1,051,276	8,516	136,903	–	2,213	1,198,908
Effective yield (%)	–	*1.84%*	*1.81%*	*1.84%*	–	–	*1.84%*
Members' loans	3,915,408	725,453	637,273	1,603,436	7,411,751	248,638	14,541,959
Effective yield (%)	*4.94%*	*3.61%*	*3.54%*	*3.44%*	*3.61%*	–	*3.88%*
Other assets	–	–	–	–	–	265,163	265,163
	3,998,308	1,776,729	645,789	1,740,339	7,411,751	734,669	16,307,585
Liabilities and Equity							
Members' deposits	5,246,560	1,340,210	918,614	1,905,332	2,726,120	994,561	13,131,397
Effective yield (%)	*0.95%*	*2.19%*	*2.21%*	*2.20%*	*1.71%*	–	*1.43%*
Other liabilities	–	–	–	–	–	229,859	229,859
Borrowings	–	200,000	–	–	–	–	200,000
Effective yield (%)	–	*2.68%*	–	–	–	–	*2.68%*
Securitization liabilities	–	75,230	76,013	229,831	762,941	–	1,144,015
Effective yield (%)	–	*1.90%*	*1.53%*	*1.72%*	*2.19%*	–	*2.03%*
Equity	–	–	–	–	–	1,602,314	1,602,314
	5,246,560	1,615,440	994,627	2,135,163	3,489,061	2,826,734	16,307,585
Off Statement of Financial Position							
Notional value of assets derivative financial instruments	–	800,000	–	200,000	1,000,000	–	2,000,000
Notional value of liabilities derivative financial instruments	(1,700,000)	(300,000)	–	–	–	–	(2,000,000)
Sub-total	(1,700,000)	500,000	–	200,000	1,000,000	–	–
Net 2019 position	$ (2,948,252)	$ 661,289	$ (348,838)	$ (194,824)	$ 4,922,690	$ (2,092,065)	$ –

(Canadian $ thousands, except per share amounts)

31. INTEREST RATE SENSITIVITY (CONTINUED)

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	$ –	$ –	$ –	$ –	$ 26,454	$ 123,612
Effective yield (%)	*0.25%*	–	–	–	–	–	*0.20%*
Investments in associate	–	–	–	–	–	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	709,434	16,127,253
Liabilities and Equity							
Members' deposits	5,005,353	1,502,305	828,945	1,445,680	3,076,208	967,665	12,826,156
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	2,689,000	16,127,253
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)

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 summary 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 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.

	Salary & Bonus	Benefits	Post Employment Benefits	2019
Chief Executive Officer (CEO)	**$ 1,121**	**$ 68**	**$ 238**	**$ 1,427**
Chief Financial Officer (CFO)	**448**	**29**	**26**	**503**
Chief Operating Officer (COO) [(1)]	**372**	**22**	**23**	**417**
Chief Information Officer (CIO)	**492**	**30**	**27**	**549**
Chief Credit, Compliance, & Operational Support Officer (CCO) [(2)]	**79**	**5**	**4**	**88**
Chief Credit, Compliance, & Operational Support Officer (CCO) [(3)]	**387**	**24**	**24**	**435**
Chief People & Corporate Services Officer (CPO)	**466**	**35**	**26**	**527**
Chief Marketing & Digital Banking Officer (CMO)	**418**	**26**	**26**	**470**
Chief Member Experience Officer (CMEO) [(4)]	**535**	**33**	**26**	**594**
	$ 4,318	**$ 272**	**$ 420**	**$ 5,010**

[(1)] The COO position was occupied by 2 officers during the year. Amount reported relates to the current officer.
[(2)] The CCO position was occupied by 2 officers during the year. Amount reported relates to prior officer.
[(3)] The CCO position was revised and occupied by 2 officers during the year. Amount reported relates to the current officer.
[(4)] The CMEO position is new as of January 1, 2019. The reported amounts include the 2 months the officer held as COO position prior to transitioning to CMEO.

	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.

(Canadian $ thousands, except per share amounts)

32. RELATED PARTY DISCLOSURES (CONTINUED)

Directors' Compensation and Expenses		2019		2018
Compensation to directors	$	714	$	665
Expenses incurred by directors		120		115
Total	$	834	$	780

Compensation to directors ranged from $20 (2018 – $19) to $72 (2018 – $71) with an average of $55 (2018 – $51).

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.

Members' Loans		As at October 31 2019		As at October 31 2018
Key management personnel	$	2,169	$	2,392
Board of directors		4,210		3,986
Other employees		377,018		373,995
Total	$	383,397	$	380,373

Members' Deposits		As at October 31 2019		As at October 31 2018
Key management personnel	$	10,862	$	12,276
Board of directors		2,709		2,086
Other employees		167,231		161,834
Total	$	180,802	$	176,196

33. AMALGAMATIONS

Edson Credit Union Merger

On May 1, 2019, the Credit Union amalgamated with Edson Savings and Credit Union Limited (Edson) acquiring 100% ownership under the name Servus Credit Union Ltd. Edson approached the Credit Union to amalgamate as a preferred partner as there was a strong correlation of culture, goals and objectives. This allows Edson to ensure the long term needs of its members are met and, as a province wide credit union, amalgamation with Edson will support Servus' broad branch network in an important community on a major northwestern highway.

(Canadian $ thousands, except per share amounts)

33. AMALGAMATIONS (CONTINUED)

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	$ 26,577	$ –	$ 26,577
Investments	9,427	–	9,427
Members' loans	15,557	124	15,681
Receivables	35	–	35
Prepaids	26	–	26
Property and equipment	1,104	371	1,475
	52,726	495	53,221
Liabilities			
Members' deposits	47,171	(161)	47,010
Trade payables and other liabilities	824	–	824
	47,995	(161)	47,834
Total identifiable net assets	**$ 4,731**	**$ 656**	**$ 5,387**

Included in trade payables and other liabilities is $619 that was not included in Edson's April 30th, 2019 audited financial statements.

Consideration in the amalgamation consists of Servus issuing the existing Edson members common shares totaling $1,586.

The amalgamation did not result in any goodwill being recognized. A gain on amalgamation of $3.8 million was recognized.

A transaction of $322 was also recorded to purchase the registered products of Edson members from Concentra. This was a separate agreement between the Credit Union and Concentra.

Total costs for the Edson Credit Union amalgamation were $350.

34. COMPARATIVE FIGURES

Adjustments have been made to assets and liabilities to account for reserved cash deposited with the Credit Union. Comparative figures as at October 31, 2018 have been reclassified on the consolidated statement of financial position by reducing cash and cash equivalents and members' deposits by $13,220. Comparative figures in the consolidated statement of cash flows for the year ended October 31, 2018 have also been adjusted as a result of the reclassification. The impact of the reclassification was a decrease in cash and cash equivalents at the beginning of the period of $10,693, a decrease in the cash and cash equivalents at the end of the period of $13,220, and an increase in net cash used in operating activities of $2,527.

Adjustments have been made to the consolidated statement of cash flows to separate cash and cash equivalents related to amalgamations from net change in other assets, provisions, and trade payables and other liabilities.

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

35. EVENTS AFTER THE REPORTING PERIOD

The Credit Union currently controls the benefits of three registry services, which are structured entities, and another two registries that are individually owned. On November 1, 2019, the two independently owned registries were transferred to structured entities controlled by the Credit Union.