servus credit union™

Management's Discussion and Analysis
Consolidated Financial Statements

For the year ended October 31, 2020

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SERVUS CREDIT UNION LTD.
Management's Discussion and Analysis
For the year ended October 31, 2020

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Servus Credit Union Ltd.'s (Servus or the credit union) 2020 annual report consists of Management's Discussion and Analysis and the Consolidated Financial Statements for the year ended October 31, 2020, 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, over 380,000 members are served by more than 2,100 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 (until June 2020)
- 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
- Atul Varde, Chief Information and Payments Officer (from June 2020)
- 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.

COVID-19 response

Early in 2020, Albertans began to feel the impacts of COVID-19. Supporting our members through some of the most challenging financial situations many of them have faced as a result of the pandemic has been our primary focus throughout 2020.

Access to financial relief and government programs was one of the most impactful ways we could help our members in the early weeks of the pandemic. This support has continued throughout the year. This work included:

- Offering a suite of COVID-19 financial relief programs including mortgage and loan deferrals, and Mastercard® relief options.
- Connecting members to government programs including:
  - Approving and funding more than $198 million in Canadian Emergency Business Account (CEBA) loans.
  - Enabling CRA direct deposit for the Canadian Emergency Response Benefit (CERB) and the Canada Emergency Student Benefit (CESB).
- Working with our partners to reduce vehicle insurance premiums for three months, provide flexible payment options and waive NSF fees, and proactively inform members about insurance coverage so they could consider making adjustments.

Providing outreach and guidance to our members in a safe and supportive manner was a fundamental part in our work with members throughout the pandemic. Some of the key areas we focused on to achieve this are:

- Developing an outreach program for seniors to help them with their urgent banking needs and provide social contact to reduce feelings of isolation. This program was honoured with the Government of Alberta's Minister's Seniors Service Award in late 2020.
- Reassigning employees to the Member Contact Centre, giving us the ability to reduce and maintain call response times to under a minute on average at the height of the pandemic.
- Enhancing health and safety protocols in branches including installing plexiglass shields, staff wearing PPE and facilitating regular deep cleaning.
- Closing some branches temporarily in order to keep other branches open, to effectively use staffing resources and ensure branches that remained open were healthy and safe environments for our members and employees.

As a credit union, supporting our communities through this challenging time has also been a major priority. In May, Servus made the decision to divert all of our sponsorship and community giving funds to charitable donations helping address the effects of the pandemic. This amounted to over $1.7 in monetary contributions to more than 510 organizations including mental health support services, food banks, and family and women support services.

Social Impact

Servus's noble purpose, 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 2020, our member and employee scores remained slightly higher than those for Alberta.

Overall Financial Fitness Scores out of 100 across four dimensions of plan, spend, borrow and save as measured by Servus's annual financial fitness survey.	2019	2020
Servus Credit Union Members	67.2	69.1
Alberta	65.5	68.8

We know our work to improve the financial fitness of members must continue. The strained economic situation in Alberta as we entered 2020 became more difficult with COVID-19 and challenged many Albertans, their families, and their businesses. 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; or in other words, to feel good about their money.

Other important actions we've taken to support our member's financial fitness are:

- Continued our use of data and information security safeguards to protect personal information against loss or theft.
- Provided members with information to counteract fraudulent attempts to gain access to their funds.
- Helped members with immediate needs while establishing plans and goals in areas such as budgeting, retirement, income protection, debt management and estate planning.
- Raised our employees' knowledge and awareness of how to shape our members' financial fitness including taking steps to ensure every member feels valued, respected and informed.

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, early in the year we identified offerings with partners of reduced-fee or no-fee community access opportunities in small and large centres across the province. However, when COVID-19 drove these facilities to close or operate at reduced capacity, these opportunities were put on hold.

To respond to the pandemic and its impact on Servus members and communities, Servus shifted all sponsorship funds to instead support charitable donations that helped address the effects of the pandemic. Throughout 2020, Servus made more than $1.7 million in monetary contributions to 510 organizations including:

- More than $275,000 to mental health initiatives like distress centres operating Alberta's 211 helpline, local branches of the Canadian Mental Health Association, and the Grande Prairie Friendship Centre.
- More than $110,000 to food banks throughout the province including Food Banks Alberta.
- More than $100,000 to family and women support services like Wings of Providence in Edmonton and the Women's Centre of Calgary.

In addition to formal community investment donations, Servus also facilitated a nomination program giving $1,000 gifts to deserving Albertans. Through this program, Servus gave $100,000 to individuals and organizations who were making a difference in their communities. This initiative was part of Servus's Feel Good Movement™, which launched in May 2020 in response to the effects of the COVID-19 pandemic.

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 2020 we:

- Decreased our year-over-year GHG emissions per member from 16 kilograms to 14.5 kilograms.
- Decreased our absolute GHG emissions by 8.9% compared to 2019.
- Exceeded our target to reduce absolute GHG emissions by 4% from our 2015 baseline by 2020 — we reduced by 18.2%.
- Reduced the volume of paper purchased by us and our outsourced suppliers by 16.6% from 2019.
- Exceeded our target to reduce paper purchased by 15% from our 2015 baseline by 2020 – we reduced by 39.1%.
- Increased the amount of paper recycled to an equivalent of 93.8% of all paper purchased compared to 80.2% in 2019.
- Sent 5.71 tonnes of electronic waste to the Electronic Recycling Association (ERA) representing all computers, UPS devices and switches.

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 2020, the credit union:

- Ranked fifth in Canada in the Forbes list of the World's Best Banks for 2020.
- Ranked as the top banking firm for our customer service levels through public customer contact forms and emails in Surviscor's Service Level Assessment review list. In a similar ranking of brokerage firms, Qtrade Investor, which Servus offers to member for online investment services, ranked number one in this index as well.
- Re-qualified as a member of the Platinum Club of Canada's Best Managed Companies for the 17th year.
- Servus President & CEO, Garth Warner, was honoured as one of Credit Union Executive Society's (CUES) 2020 Hall of Fame inductees and the CUES Outstanding Chief Executive for 2020.
- Named to Forbes 2020 Canada's Best Employers list for the third year in a row.

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 16th 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, Branch Service Excellence, Live Agent Telephone Banking Excellence, Financial Planning and Advice, Online Banking Excellence, and ATM Banking Excellence. For us, it's always about putting members first.

*Ipsos 2020 Best Banking Awards were based on ongoing quarterly Customer Service Index (CSI) survey results. The sample size for the total 2020 CSI program year ending with the September 2020 survey wave was 48,284 completed surveys.

Economic Environment: 2020 Review

The headlines for 2020 were dominated by COVID-19 and the pandemic continues to inflict high human and financial costs worldwide. The fallout of the health crisis extended to the global financial markets as stock markets and commodity prices collapsed at the height of the first wave, forcing central banks around the world to adopt highly accommodative monetary policy to supplement numerous governments' fiscal measures. Though there was some economic rebound over the summer as countries reopened their economies, it appears the second wave resurgence is beginning to compel another set of shutdowns worldwide. The International Monetary Fund (IMF) is projecting global output to decline by 4.4% in 2020 as compared to the 3.4% growth forecast in 2019.

In the United States, the pandemic led to a sharp decline in economic activity, causing the unemployment rate to soar from a 50-year low to 14.7% in April 2020. The Federal Reserve (FED) embarked on various monetary policy measures along with a $2.2 trillion fiscal stimulus package to prop up the economy. These massive policy supports alleviated the pandemic impact, allowing the US economy to expand by an annualized rate of 33.1% in the third quarter after a rate of -31.4% in the second quarter. The high unemployment levels witnessed in April steadily improved to 6.9% as of October 2020.

The Bank of Canada also unveiled monetary stimulus to support fiscal measures that provided relief to Canadians. The economy entered a recession in 2020 as gross domestic product (GDP) shrank 11.5% in the second quarter of 2020 following a 2.1% decline in the first quarter. Canada's unemployment rate peaked at 13.7% in May 2020, though this eased to 8.9% by October 2020. Prices for Consumer Price Index (CPI) components that fell sharply because of weak demand early in the pandemic — including gasoline and travel accommodations — remained low compared to their levels from the previous year. According to the Business Outlook Survey, business sentiment remains weak across the country with indications that substantial excess capacity remains.

Housing activity slowed in the first two quarters of the year, but recovered sharply in the third quarter, buoyed by historically low interest rates. The strength of the housing market recovery, combined with a tight resale market, has led to rapid growth of house prices in some markets. However, housing indicators in Alberta are more heavily weighted to the downside than other provinces largely due to the reliance on energy while the province also faces issues with supply outstripping demand.

Amidst increased global appetite for risk, the Canadian dollar returned to levels last seen in late 2019 as it strengthened against the US dollar closing at $1.3318 as of October 31, 2020.

In Alberta, the government revised its fiscal deficit estimate to $24.2 billion for 2020-21 as the province was adversely impacted by the pandemic and low oil prices. In the first quarter of 2020, the Government agreed to provide $1.5 billion in equity investment combined with a $6 billion loan guarantee to finance the Keystone Pipeline. Around the same period of the investment agreement, we saw a collapse in oil prices aggravated by the spat between Saudi Arabia and Russia over supply levels which led to West Texas Intermediate (WTI) crude oil prices falling to around US$20 a barrel by end of March. Worse still for Canadian energy producers, the price of Western Canadian Select (WCS) dropped to nearly US$5 a barrel at its low point. Since the lows in March, oil prices for WTI and WCS rebounded to US$37 and US$26, respectively by October. Provincial GDP is now expected to contract 8.1 percent in 2020 while the current unemployment rate of 10.7 percent remains above national levels.

Servus's Financial Highlights in 2020

Servus's 2020 financial results reflect a number of stories and challenges faced not only by Servus, but by the financial industry as a whole. Throughout the year, Servus worked to address three major economic stress points impacting the credit union and many of our members:

1. A world-wide pandemic that severely impacted economies.
2. A sudden and drastic drop in interest rates.
3. A sudden and severe drop in oil prices that recovered to just minimal levels by the end of the fiscal year.

These events impacted nearly every part of the credit union's operations in 2020. Our approach was to focus on our purpose of supporting and serving our members. Our member-facing employees worked tirelessly to help members find solutions to their financial situations including accessing financial relief programs, revising long-term financial plans, and providing timely financial advice.

While supporting our members, we were also carefully monitoring and managing Servus's overall financial fitness. Servus's careful cost management and work to build capital reserves over the years positioned the credit union well as we entered the pandemic. We continued to carefully manage our costs through the pandemic to ensure we will maintain this strength and continue to meet the needs of our members into the future.

Despite the challenges, Servus's total assets grew 5.3% and achieved operating income (income before patronage and taxes) of $114.4 million. While this was a significant drop from prior years, this level of profitability was sufficient to build capital, support growth initiatives, appropriately compensate employees, avoid layoffs, and reward members with significant profit share rewards.

Financial Position

As the pandemic progressed, consumer spending slowed due to lockdowns and concerns about employment and cash flow. This reduced spending, government financial support programs and deferred loan payment arrangements helped many members save. As a result, Servus's deposit book grew by 5.5% in 2020. Total assets grew by 5.3%, primarily from increases in our loan book and investment portfolio.

Despite reduced revenues, Servus was able to maintain sufficient profitability to build equity and reward members with patronage. With the growth in deposits, Servus was able to maintain a healthy liquidity position throughout the pandemic. We also saw significant drops in overdraft and HELOC balances as government stimulus and loan payment deferrals freed up members' cash to pay down their revolving credit facilities.

Overall, Servus was able to grow our capital in 2020 despite pressure on revenues. The ratios noted below demonstrate that our capital position is well above regulatory standards, which enables Servus to absorb potential financial impacts from unforeseen negative events. A strong capital position ensures that Servus will remain sustainable for our members over the long run with the financial resources to strategically invest in our future.

	2020	2019	Internal Policy Requirements	Minimum Supervisory Requirements
Capital as a % of total assets	9.3%	9.4%	4.0%	4.0%
Retained earnings to assets	5.6%	5.6%	4.0%	N/A
Retained earnings as a % of total assets	17.1%	16.7%	13.5%	11.5%

Margin

Margin, or net interest income, declined slightly in 2020 due to slower loan growth and an accounting adjustment to securitization costs. Supporting margin in 2020 was a derivative program that hedged most of the decline in interest rates. Without these hedges in place, net interest income would have fallen substantially further than it did.

Other Income

Multiple factors put pressure on non-interest income, including major changes in consumer spending, particularly during the lockdown period of April and May, and a drop in loan origination during the year.

Service charge revenues dropped significantly as consumer spending patterns shifted during early stages of the pandemic lockdowns. Revenues returned to more normal levels later in the year. The drop in service charges was offset by increases in insurance revenue and wealth management income as the stock market and our assets under management recovered from the significant drop early in the pandemic.

Mastercard revenues were lower in 2020 as transaction volumes fell with lower consumer spending and members paying down their outstanding balances. Many of our members were able to take advantage of various programs and initiatives to ensure their revolving credit was manageable.

Other revenues dropped year-over-year for two primary reasons: an amalgamation gain in 2019 and a recorded loss due to loan modifications in 2020. This loan modification loss is a result of changes made to loan payments during the year which reduced the associated cash flow to Servus – mostly because of blend and extend agreements. These two items made up most of the total decline in other income overall.

Provision for Credit Losses

Reduced consumer spending and reduction in world-wide demand for oil took their toll on Alberta businesses in 2020. The economic fallout has created significant stress for many businesses and their cash flows. In addition to the formal models we have built, our final total estimate of expected credit losses must consider other changes that occurred because of the COVID-19 pandemic. There were declines in consumer spending, business revenues, and significant changes in commercial real estate, restaurant, and hotel usage.

At-risk loan balances have grown and represent one of several indicators demonstrating a greater threat of credit losses in the commercial loan book. Deferred loans kept write-offs and delinquency down, but as we move into fiscal 2021, businesses and individuals may start to see more pressure on cash flows. Government programs have created a cushion for our members to stay current with loan payments. As those programs wind down, the impact of unemployment, reduced hours and salaries and lower revenues in some businesses will result in higher loan losses in the next two years.

Given all of these changes in 2020, management did extensive scenario analysis to assess what could potentially happen in various circumstances, such as elevated loan defaults and reduced security values. This scenario analysis was used to assess what the probable impact would be on total future loan losses.

Based on the scenario analysis completed, an additional management overlay was added to our estimate of total expected credit losses. As a result, our provision for expected credit losses increased year-over-year which is consistent with the reporting coming out of most financial institutions this year. Management has stringent processes and oversight on credit losses and continues to closely monitor these results.

Operating Expenses

Personnel

We rely on our exceptional employees to serve our members' needs. During the year, employees received cost of living adjustments and merit increases toward their compensation. In addition, frontline and support employees below the VP level were rewarded with additional pay to recognize their extraordinary efforts during the initial phases of COVID-19.

These increased costs were offset with a drop in our total workforce during the year by not replacing vacant positions, closing branches where members have migrated to other alternatives, and initiatives the credit union has completed to make work processes more efficient.

Other Expenses

General administration expenses for the operation of the credit union increased during the year. Increases in computer processing costs were used to modernize our computer network and strengthen controls. Servus also invested in several key initiatives to automate administrative tasks, improve fraud detection, and strengthen our abilities in using data to improve operations.

The decline in Mastercard transactions led to a drop in associated expenses. Cost reductions were gained through reduced Circle points redemptions, points service fees, and communication costs. These were offset somewhat by an increase in fraud write-offs.

Occupancy costs changed in 2020 due to changes in accounting standards for leases. As explained in Note 4 in the annual financial statements, rent expense decreased while lease interest expense and depreciation increased. We also experienced elevated costs as a direct result of enhanced cleaning and sanitizing for COVID-19 safety.

Costs associated with our 100% deposit guarantee decreased 44% from 9 basis points to 5 basis points. As a result, the overall cost dropped substantially.

Overall, primarily due to the impacts of COVID-19, net income fell by $39.8 million (39.6%) year-over-year. Despite this, Servus was able to return over $54 million to members in the form of Profit Share Rewards cash ($33.3 million), common share dividends ($16.3 million) and investment share dividends ($4.7 million). The credit union's strong capital position allowed us to return significant value to our member-owners in a time when they may need it most. Since 2008, we have now paid out over $618.1 million in profit share rewards and plan to continue doing so well into the future thanks to our sustainable financial position.

2020 Balanced Scorecard Results*

Objective	Measure	2020 Target	2020 Unadjusted Result	2019 Result
The value of being a member is clear and compelling	Member Satisfaction	89%	87%	89%
Servus members as advocates	Member Loyalty Index	79%	77%	79%
High level employee engagement	Employee engagement	82%	87%	84%
Positive leadership climate	Leadership Climate Index	75%	75%	74%
Financial growth	Operating income[1]	$145.2 million	$114.4 million	$149.9 million
Reduced dependency on interest-based income	Other income as a percentage of average assets[1]	0.748%	0.694%	0.747%
Leveraging assets profitably	Return on assets[1]	0.872%	0.682%	0.911%
Business process improvement for efficiency and effectiveness	Operating efficiency ratio[1, 2]	67.749%	69.88%	65.488%
	Operating expenses as a percentage of average assets[1]	2.135%	2.116%	2.085%

[1]2019 results are before patronage, income taxes and certain items, such as income from affiliates, impact of amalgamations, early retirement costs, etc.
[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.

Servus balances performance with the impact of unforeseen circumstances. The global COVID-19 pandemic and its effects were not anticipated when targets for 2020 were set. As a result, many of the financial metric targets were not achieved in 2020. The most significant impacts to the balanced scorecard results were due to costs that were a direct result of the pandemic. This includes provision for credit losses, operating costs directly attributed to COVID-19 (i.e. additional salary and supply costs), and loss on loan modifications. Despite these effects, Servus produced significant income in 2020 and continued to pay profit share rewards to members.

*For more information on the balanced scorecard, see p.11.

Economic Environment: 2021 Outlook

Following the economic contraction seen in 2020, the most recent IMF forecast suggests that global growth should rebound to 5.2% in 2021. This growth projection heavily relies on public health and economic factors that are inherently difficult to predict, though, recent positive developments on the vaccine front coupled with the extension of fiscal measures into 2021 are expected to boost economic activity. Of course, impacts from a potential second wave of the pandemic could impact this projection in the near term.

Economists predict that the US economy will grow at 3.1% in 2021, but this will depend heavily on trade relations between the US and China. The incoming administration is expected to focus on climate change as the US is expected to rejoin the Paris Agreement and promote green energy jobs as the backbone of economic growth. The Biden administration has also pledged to roll back some of the tax cuts that were passed by the last administration. Nevertheless, we could see some of the established America-first protectionist policies continue. Without majority control of the Senate, desired policy change could be difficult to push through. With a fresh stimulus package expected to be passed, we still anticipate the US FED to keep its accommodative interest rate stance throughout 2021 and beyond.

In Canada, new restrictions imposed in some provinces to counter the second wave of the pandemic are expected to once again dampen growth in the near term. Nevertheless, the Bank of Canada anticipates that new fiscal support measures, including broadened eligibility for employment insurance and new benefit programs, will continue to provide important backing for the economy throughout the recovery in 2021. The Bank of Canada predicts the economy will expand by almost 4% on average in 2021 while the gap between the actual output and the potential output of the economy is expected to close by 2023. With the significant slack in the economy, we expect the Bank of Canada to also continue its accommodative interest rate stance. Low energy prices are expected to keep inflation below the lower end of the Bank of Canada's inflation control target range of 1 to 3 percent until early 2021. Household spending is expected to rebound somewhat in 2021 driven by higher employment and disposable income along with low interest rates. Consumption and housing demand will be further boosted by resumed immigration as the pace of immigrant arrivals in Canada is expected to return to pre-pandemic levels in 2021. Business investment is expected to increase gradually, in line with soft domestic and foreign demand. Investment in the oil and gas industry is projected to grow by just over 2% in 2021–22. Potential easing of the Canada/US border restrictions and stronger US growth are expected to provide a further boost to Canadian export growth and investment activity.

WTI is forecast to average out at about $44/barrel in 2021 while the CAD/USD exchange rate is projected to hover at around the 1.300 level for the year. The future of pipeline investments in the province will largely depend on the approach taken by the US President-elect on the Keystone Pipeline which he threatened to cancel during his presidential campaign. On a positive note, Alberta's economy is forecast to grow by 4.4% in 2021, resulting in 4.3% employment growth which would reduce the unemployment rate to 9.5%. While that is still high relative to historic standards, a move in the positive direction would certainly be welcomed.

Setting the Direction: 2021 – 2023 Strategic Plan

In late 2019, Servus implemented a 10-year strategic roadmap to guide our long-term strategic investment efforts. The roadmap, which we refer to as our 'Compelling Future,' was developed jointly by Servus's Board of Directors and executive leadership team. It outlines 10-year aspirational targets for Servus to work toward, broken down into three timing phases. This roadmap is intended to guide our three-year strategic planning and decision making, ensuring we stay focused on the long-term aspirations of the credit union. The 2021-2023 Strategic Plan supports this roadmap, breaking it down into shorter-term targets and addressing current affairs.

Servus's Executive Leadership Team remain confident that our noble purpose of shaping member financial fitness is more relevant today than ever and agrees that our current strategic direction is the right one for the credit union and our members.

At the heart of our noble purpose is our collective belief in the power of financial fitness — that money management behaviours can help our members feel in control, build resilience, and allow them to pursue opportunities. This is what we want for all members. As we work with them, we will help define what their financial fitness looks like and set their goals accordingly. For FY2021, Servus will balance its approach between protecting and running the credit union through the economic downturn while continuing to make strategic investments that will benefit members into the future.

Servus will achieve this in 2021 through a sharp focus on:

- Stimulating credit union growth in a way that meets member's financial fitness needs.
- Restructuring our spending to align with the new operating environment while focusing investment toward areas of strategic importance.
- Developing advice-and goal-based experiences that increase member financial fitness.

Servus will also continue with important foundational work including payments and channel modernization to transform its banking platforms and channels to enable quick adoption of emerging technologies. This also includes modernizing our payments functions to provide fast, reliable and seamless money movement with better information about payment transactions. It also includes further developing our digital security measures to enhance how we ensure secure transactions and protect member information and assets. These areas are critical to delivering the experiences our members want and deserve from their credit union.

Servus's financial discipline enabled it to enter the pandemic and associated financial crisis with very strong capital and liquidity positions. This strength will not only help to manage through the rest of the pandemic, but to also come back strong. As always, Servus will continue to serve its members across the province and fulfill our noble purpose of shaping member financial fitness while we work towards our vision of building a better world one member at a time.

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 (GHR)

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.

CEO Succession Committee

With the President & CEO's retirement announcement, the CEO Succession Committee was created to manage the recruitment and transition of Servus's new CEO.

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. Directors serve four-year terms

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 chair:	additional $10,000 per annum
Board vice chair:	additional $5,000 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, 2019 – October 31, 2020

Director	Board Meetings*	Committee Name	Committee Meetings	Total Remuneration: Honorarium + per diem (includes CPP)
John Lamb Board Chair (Nov 2019 – Oct 2020) CEO Succession Committee Chair (Mar 2020 – Oct 2020)	16 of 16	Chair/Vice/CEO Audit/Finance ERM Governance & HR Alberta Central AGM CEO Succession	11 6 4 7 1 10	$81,265
Doug Bristow Board Vice Chair (Mar 2020 – Oct 2020) AFC Committee Chair (Nov 2019 – Oct 2020)	16 of 16	Chair/Vice/CEO Audit/Finance Nominating CEO Succession	6 11 1 10	$66,210
Amy Corrigan Nominating Committee Chair (Nov 2019 – Feb 2020) Nominating Committee Vice Chair (Mar 2020 – Oct 2020)	16 of 16	Audit/Finance ERM Governance & HR Nominating Community Council	2 1 8 6 1	$55,493
Danielle Ghai Nominating Committee Vice Chair (Nov 2019 – Feb 2020) Nominating Committee Chair (Mar 2020 – Oct 2020) GHR Committee Chair (Mar 2020 – Oct 2020)	15 of 16	Audit/Finance Governance & HR Nominating AGM Committee CEO Succession	1 8 5 8 10	$67,477
Darcy Mykytyshyn GHR Committee Chair (Nov 2019 – Feb 2020) GHR Committee Vice Chair (Mar 2020 – Oct 2020)	15 of 16	Audit/Finance Governance & HR Nominating	2 8 1	$52,256
Donna Tona Started Board March 2020	9 of 9	Audit/Finance ERM AGM Committee Board Orientation	8 1 2 1	$37,349
Iris Evans CEO Succession Committee Vice Chair (Mar 2020 – Oct 2020)	16 of 16	Audit/Finance ERM Nominating AB Central Briefing Alberta Central AGM CEO Succession	11 1 4 5 1 10	$58,533
Jon Holt AFC Committee Vice Chair (Nov 2019 – Feb 2020)	16 of 16	Audit/Finance ERM Community Council	11 3 1	$53,719
Matthew Protti ERM Committee Chair (Nov 2019 – Feb 2020) (Mar 2020 – Oct 2020)	16 of 16	Audit/Finance ERM AB Central Briefing Alberta Central AGM	2 4 3 1	$52,242

Perry Dooley GHR Committee Vice Chair (Nov 2019 – Feb 2020) ERM Committee Vice Chair (Mar 2020 – Oct 2020)	16 of 16	Audit/Finance ERM Governance & HR Nominating AB Central Briefing Community Council Alberta Central AGM	2 3 4 4 5 1 1	$59,000
Shawn Eltom	15 of 16	Audit/Finance ERM Governance & HR	1 3 4	$48,389
Terry Geib March 5 – May 15, 2020	4 of 5	ERM Board Orientation	1 1	$14,610
Simon Neigum Nov 1, 2019 – Mar 4, 2020 Board Vice-Chair (Nov 2019 – March 4, 2020)	6 of 7	Chair/Vice/CEO Audit/Finance ERM	4 3 1	$24,077
Doug Hastings Nov 1, 2019 – Mar 4, 2020 ERM Committee Vice Chair (Nov 2019 – Feb 2020)	7 of 7	Audit/Finance ERM AB Central Briefing Alberta Central AGM	1 1 2 1	$20,351

- Board meetings include Servus's Annual General Meeting (AGM), annual board planning session, and ad hoc board teleconferences.
- Standing board committees include the Audit & Finance, Governance & Human Resources, Enterprise Risk Management and Nominating Committees. With the announced retirement of the President & CEO the Board created and activated a CEO Succession Committee in March 2020.
- The board of director chair is an ex officio member of all committees.
- Board members are assigned to one or two committees at the organizational meeting in March but can attend any committee meeting. Committee assignments can cross two fiscal years.
- The Nominating Committee members are never in the final year of their term. Candidate interviews were held October 26 – October 27, 2020, in addition to a candidate orientation meeting.
- AGM Committee denote Servus's board of directors' representative on the management AGM Committee.
- AB 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 39 community councils around the province. Meetings scheduled to take place after the March 4, 2020 AGM were cancelled due to the pandemic.

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 16 board meetings last year which included, the Servus Annual General meeting in March 2020 in Red Deer, Alberta, a two-day planning session in September, and additional ad hoc board meetings, as required, to address issues such as COVID-19. In addition, the Audit & Finance Committee met 11 times, the Enterprise Risk Management Committee met 4 times and the Governance & Human Resources Committee met 8 times. The Nominating Committee met 1 time in 2019, 3 times between June and October 2020, and conducted two days of candidate interviews. The CEO Succession Committee was created in response to the current President & CEO's retirement announcement. This committee met 10 times.

Directors participated in the following:

- CUES Directors Conference in December 2019
- Servus's Annual General Meeting in March 2020
- The Credit Union Central of Alberta (CUCA) Conference and Annual General Meeting virtually in April 2020
- The Canadian Credit Union Association (CCUA) Annual General Meeting and Conference virtually in May 2020

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 31 on Financial Risk Management in the 2020 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.

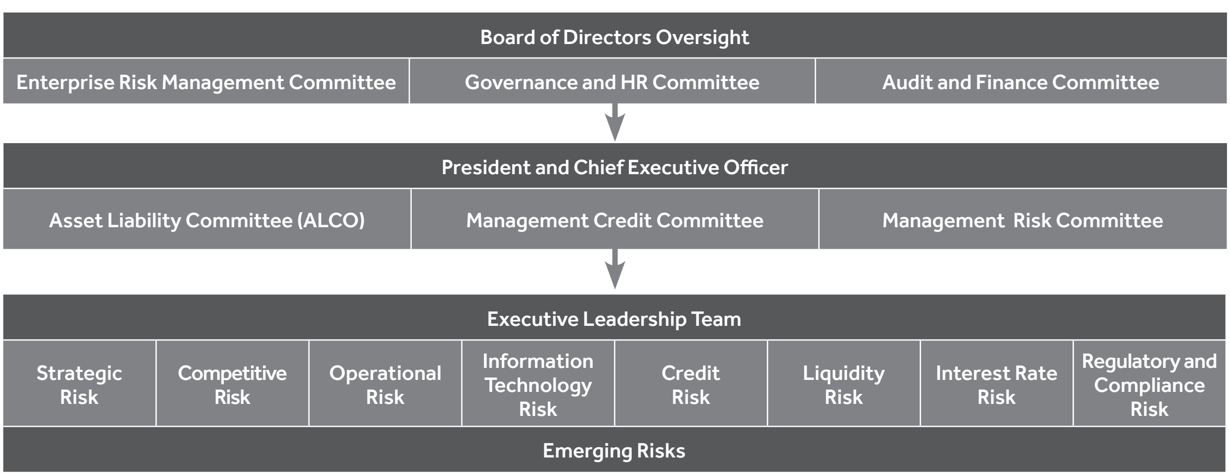

Figure 1: Servus Credit Union's Enterprise Risk Management Governance Model

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.

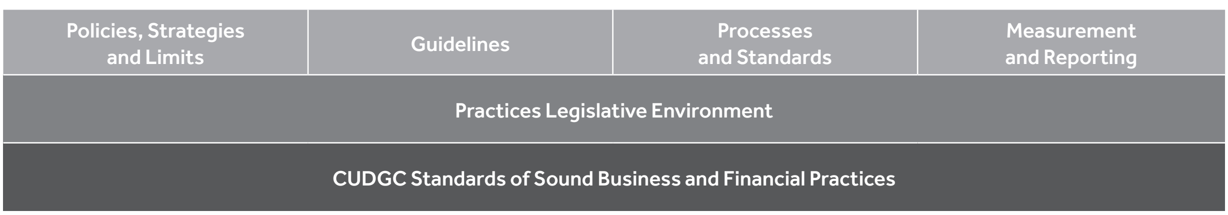

Figure 2: Servus Credit Union's Risk Management Framework

Types of Risk

Servus groups its major risks into 9 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. The board of directors approves and reviews liquidity risk policies at least annually, with regular reporting provided to its Enterprise Risk Management and Audit and Finance Committees.

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.

Servus manages reputational risk as a subcomponent of competitive risk. We define reputational risk as any activity, inactivity or decision of Servus or one of its employees, business partners, affiliates or representatives that has the potential to 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.

6. 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.

7. 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 through comprehensive policies, training, processes, oversight and maintaining a strong compliance culture. 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.

8. 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.

9. 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, 2020

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.

Original signed by:

Garth Warner
President and Chief Executive Officer

Ryan Gobolos
Chief Financial Officer

Deloitte.

Deloitte LLP
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Suite 1500
Manulife Place
Edmonton AB T5J 4K1
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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, 2020, 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, 2020, 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.

Other Information

Management is responsible for the other information. The other information comprises the information, other than the financial statements and our auditor's report thereon, in the Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and those charged with Governance for the 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.

Original signed by Deloitte LLP

Chartered Professional Accountants
January 21, 2021

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

	Notes	October 31 2020	October 31 2019
Assets			
Cash and cash equivalents	5	$ **188,954**	$ 107,760
Investments	6	**1,627,385**	1,198,908
Members' loans	7	**14,845,263**	14,541,959
Income taxes receivable		**–**	7,651
Assets held for sale	10	**6,671**	12,811
Other assets	11	**30,405**	31,600
Property and equipment	12	**137,342**	139,815
Leased assets	13	**53,487**	–
Investment property	14	**6,120**	4,617
Derivative financial assets	15	**13,030**	8,239
Investment in associate	16	**197,851**	193,795
Intangible assets	17	**61,786**	60,430
Total assets		**17,168,294**	16,307,585
Liabilities			
Borrowings	19	**200,000**	200,000
Securitization liabilities	20	**1,148,433**	1,144,015
Members' deposits	21	**13,856,560**	13,131,397
Trade payables and other liabilities	22	**222,113**	194,424
Lease liabilities	13	**58,124**	639
Income taxes payable		**830**	124
Allowance for off balance sheet credit instruments	7,8	**7,562**	6,064
Derivative financial liabilities	15	**4,673**	8,893
Investment shares	24	**434**	418
Defined benefit plans	23	**8,126**	7,555
Deferred income tax liabilities	18	**8,238**	11,742
Total liabilities		**15,515,093**	14,705,271
Equity			
Share capital	24	**686,549**	681,848
Retained earnings		**954,279**	909,369
Accumulated other comprehensive income		**12,373**	11,097
Total equity		**1,653,201**	1,602,314
Total liabilities and equity		$ **17,168,294**	$ 16,307,585

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

Approved on behalf of the Board of Directors

Original signed by:

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 2020	Year ended October 31 2019
Interest income			
Members' loans		$ **558,801**	$ 590,162
Investments	25	**25,463**	28,077
Total interest income		**584,264**	618,239
Interest expense			
Members' deposits		**152,218**	184,323
Other interest expense	26	**40,890**	33,963
Total interest expense		**193,108**	218,286
Net interest income		**391,156**	399,953
Other income	27	**116,395**	124,287
Share of profits from associate	16	**6,780**	7,897
Net interest income and other income		**514,331**	532,137
Provision for credit losses	8	**45,289**	19,819
Net interest income after provision for credit losses		**469,042**	512,318
Operating expenses			
Personnel		**213,158**	205,814
General		**78,874**	76,144
Occupancy		**17,825**	21,801
Member security		**9,569**	14,370
Depreciation	12,13,14	**17,535**	12,072
Organization		**5,658**	4,981
Impairment of assets	10,12,17	**924**	1,126
Amortization	17	**11,106**	10,553
Total operating expenses		**354,649**	346,861
Income before patronage allocation to members and income taxes		**114,393**	165,457
Patronage allocation to members	24	**33,347**	32,370
Income before income taxes		**81,046**	133,087
Income taxes	18	**20,261**	32,494
Net income		$ **60,785**	$ 100,593

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 2020		Year ended October 31 2019
Net income		**$**	**60,785**	$	100,593
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)	23		**(406)**		(92)
Unrealized gain and reclassification adjustments on fair value through other comprehensive income securities (2)			**–**		1,756
Reclassification of net gains to net income (3)			**–**		(114)
Share of other comprehensive (loss) income from associate					
Actuarial (loss) gain on defined benefit pension plans (4)			**(278)**		92
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)			**1,960**		2,238
Total other comprehensive income		**$**	**1,276**	$	3,880
Total comprehensive income		**$**	**62,061**	$	104,473
Total comprehensive income					
Comprehensive income attributable to members			**62,061**		104,440
Comprehensive income attributable to non-controlling interest			**–**		33
Total comprehensive income		**$**	**62,061**	$	104,473

(1) Net of income tax recovery for the year ended October 31st of $132, 2019 – $33
(2) Net of income tax expense for the year ended October 31st of $0, 2019 – $649
(3) Net of income tax expense transferred for the year ended October 31st of $0, 2019 – $42
(4) Net of income tax (recovery) expense for the year ended October 31st of $(83), 2019 – $34
(5) Net of income tax expense for the year ended October 31st of $586, 2019 –$166

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 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		–	–	(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	24	23,534	–	–	–	–	23,534
Redemption of share capital	24	(32,764)	(3,833)	–	–	–	(36,597)
Dividends on share capital	24	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)	24	–	–	(18,066)	–	–	(18,066)
Fair value adjustment for investments		–	–	–	1,756	–	1,756
Transfer from AOCI to P&L on MBS bond sale		–	–	–	(114)	–	(114)
Actuarial loss on defined benefit plans	23	–	–	–	(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

	Notes	Common Shares	Investment Shares	Retained Earnings	Accumulated Other Comp-rehensive Income	Total Equity
Balance at October 31, 2019		**$ 560,793**	**$ 121,055**	**$ 909,369**	**$ 11,097**	**$ 1,602,314**
Changes in equity						
Issues of share capital	24	**19,816**	**–**	**–**	**–**	**19,816**
Redemption of share capital	24	**(30,571)**	**(5,570)**	**–**	**–**	**(36,141)**
Dividends on share capital	24	**16,337**	**4,689**	**–**	**–**	**21,026**
Net income		**–**	**–**	**60,785**	**–**	**60,785**
Dividend (net of income tax recovery of $5,151)	24	**–**	**–**	**(15,875)**	**–**	**(15,875)**
Actuarial loss on defined benefit plans	23	**–**	**–**	**–**	**(406)**	**(406)**
Share of other comprehensive income from associate		**–**	**–**	**–**	**1,682**	**1,682**
Balance at October 31, 2020		**$ 566,375**	**$ 120,174**	**$ 954,279**	**$ 12,373**	**$ 1,653,201**

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 2020	Year ended October 31 2019
Cash flows from (used in) operating activities			
Net income		**$ 60,785**	$ 100,593
Adjustments for non-cash items and others			
Net interest income [1]		**(391,156)**	(399,953)
Provision for credit losses		**45,289**	19,819
Share of profits from investment in associate		**(6,780)**	(7,897)
Depreciation and amortization		**28,641**	22,625
Impairment of assets		**924**	1,126
Gain from amalgamations		**–**	(3,801)
Loss on leased assets		**33**	–
Loss (gain) on assets held for sale		**378**	(244)
Loss on disposal of property and equipment		**507**	61
Loss on disposal of intangible assets		**170**	93
Loss on loan modifications		**2,596**	–
Income taxes		**20,261**	32,494
Adjustments for net changes in operating assets and liabilities			
Change in members' loans		**(317,288)**	(250,148)
Change in members' deposits		**733,588**	243,116
Change in assets held for sale		**(13,903)**	(23,098)
Change in derivatives		**(9,011)**	(5,720)
Net change in other assets, provisions, and trade payables and other liabilities		**13,803**	3,220
Income taxes paid, net		**(10,256)**	(21,892)
Interest received		**551,221**	615,469
Interest paid		**(192,405)**	(203,171)
Net cash from operating activities		**517,397**	122,692
Cash flows from (used in) investing activities			
Additions to intangible assets		**(12,823)**	(5,236)
Additions to property and equipment, and investment property		**(11,181)**	(9,799)
Cash and cash equivalents arising from amalgamation		**–**	26,577
Proceeds on disposal of property and equipment, and investment property		**321**	575
Proceeds on disposal of assets held for sale		**18,198**	20,000
Purchase of Alberta Central shares		**(963)**	(3,040)
Distributions from Alberta Central		**5,872**	5,160
Investments		**(427,837)**	78,380
Net cash (used in) from investing activities		**(428,413)**	112,617
Cash flows from (used in) financing activities			
Term loans and lines of credit	19	**–**	(50,000)
Advances of securitization liabilities		**494,939**	235,178
Repayment of securitization liabilities		**(481,236)**	(420,444)
Repayment of principal portion of lease liabilities		**(5,168)**	(239)
Non-controlling interest		**–**	(1,007)
Shares issued		**19,816**	21,948
Shares redeemed		**(36,141)**	(36,597)
Net cash used in financing activities		**(7,790)**	(251,161)
Increase (decrease) in cash and cash equivalents		**81,194**	(15,852)
Cash and cash equivalents, beginning of year		**107,760**	123,612
Cash and cash equivalents, end of year		**$ 188,954**	$ 107,760

[1] *Net interest income includes a fair value (gain) loss on derivatives for the year ended October 31st of $(680), 2019 – $6,489*

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, 2020. 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, 2020, were authorized for issue by the Board of Directors on January 21, 2021.

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 Critical Judgments

The preparation of the financial statements requires management to make estimates, assumptions and critical 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; expected 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 have been made in the following areas: impairment of non-financial and financial assets, modification and derecognition of assets, expected credit losses, classification and valuation of financial instruments, consolidation of structured entities and accounting for investment in associate.

The valuation of leased assets and leased liabilities require that the Credit Union make assumptions about the lease term and the interest rate used for discounting future cash flows. Given that contractual terms of lease contracts often contain renewal options, judgment is required to determine the likelihood that these options will be exercised. Where implicit interest rates are not determinable from a lease contract, judgment is used to determine an appropriate discount rate that is reflective of the rate would be incurred if the Credit Union were to purchase the assets outright.

2. BASIS OF PRESENTATION (CONTINUED)

The global pandemic declared by the World Health Organization on March 11, 2020 due to the outbreak of COVID-19 has cast uncertainty on the estimates, assumptions, and critical judgments exercised by management. The full extent of the impact of the pandemic, including government and /or regulatory responses, will have on the Canadian (specifically Albertan) economy continues to be monitored as there is still much uncertainty.

In addition to the pandemic, low oil prices, disputes among oil producing countries, completion of pipelines earlier in the year and the possibilities of additional COVID-19 restrictions have added to the uncertainty that Alberta may struggle to recover as quickly as other Provinces once a vaccine is released and restrictions are removed. The Credit Union put in place relief measures for personal and business members who are having trouble meeting their financial obligations.

The main effects of the COVID-19 pandemic on the Credit Union's profit and loss and financial position as at October 31, 2020 are reduced margin due to lower interest rates and economic uncertainty requiring management to make significant judgments to estimate the allowance for expected credit losses (refer to Note 8 for more information). Another effect is spending behaviours have changed and the Credit Union is experiencing additional liquidity as our members are saving more.

In response to the COVID-19 pandemic, the Credit Union participated in the following assistance programs of the Government of Canada:

- Canada Emergency Business Account (CEBA)

  Under the CEBA program, the Credit Union has provided interest-free loans until December 31, 2022 (and at a rate of 5% thereafter), funded by the Export Development Bank of Canada (EDC), to existing eligible small business members. As the Credit Union does not retain substantially all of the risks and rewards of the financial assets, and all cash flows are passed through to the EDC, these loans are derecognized from the Credit Union's consolidated statement of financial position as the program meets the derecognition criteria of a transfer under IFRS 9.
- Business Credit Availability Program (BCAP)

  There are two programs under BCAP, one administered through EDC and the other through Business Development Bank of Canada (BDC).

  Under the EDC BCAP, the EDC will guarantee 80% of new operating lines of credit and term loans up to $6.25 million for small and medium-sized businesses. Loans guaranteed by EDC will continue to be recognized on the consolidated statement of financial position.

  Under the BDC BCAP, BDC entered into a co-lending facility with the Credit Union in which BDC will purchase an 80% participation in term loans made to eligible small business and commercial members up to a maximum of $12.5 million. The portion of loans sold to BDC is derecognized from the Credit Union's consolidated statement of financial position as the program meets the derecognition criteria for a transfer under IFRS 9.

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)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 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.

Subsidiaries

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

- The Credit Union's 100% ownership interest of Servus Wealth Strategies Ltd., which provides wealth management services
- The Credit Union's 100% ownership interest of 2190730 Alberta Ltd. and 2190769 Alberta Ltd., which provide registry services
- The Credit Union controls the benefits of three registry services, which are structured entities and have been consolidated

Investment in Associate

Investment in associate include any 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 — 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 Union's 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Credit Union's 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 – 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 securitization liabilities	▼		
Investment share liability portion			▼

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. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 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:

- Alberta unemployment rate
- Alberta housing price index
- Spread between the three month Bankers' Acceptance rate and the three month Government of Canada bond rate

These factors are customized to each major loan grouping, taking into account any lag factors and are updated quarterly. The model includes forecasts for these FLIs out 20 quarters and then uses a weighted average of three scenarios (best, base, and worst) of these FLIs to calculate ECL. These scenarios are intended to address the variety of possible outcomes in the forecast. 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, ECL allowances are calculated 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.

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 FICO scores

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 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 credit impaired (Stage 3) unless other factors are known
- 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 fulfill their contractual obligations even under stress scenarios. These financial assets have been assessed collectively and include Alberta Central term deposits, term deposits held with other financial institutions, accounts receivable, 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 are written off where there is no realistic prospect of future recovery. The amount charged to the allowance consists of the remaining balance after cost to collect and 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 allowance for credit losses in the consolidated statement of financial position.

Modifications

A modification is when a loan's original terms, payment schedule, interest rate or limit are renegotiated, or an existing financial asset is replaced with a new one resulting in a change to the loan's contractual cash flows. The Credit Union can modify the contractual terms to provide more competitive pricing or to grant concessions to a borrower experiencing financial difficulty.

When a modification occurs, it must be assessed to determine if the financial asset should be derecognized. If the result is a modification, the origination date used to determine a significant increase in credit risk does not change. When the modification is considered substantial, the financial asset is derecognized and the date of the modification becomes the new origination date and the loan is recognized at its fair value at that date. Other derecognition criteria is described in the following section.

The impact of 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 gain or loss is recorded in other income in the consolidated statement of income.

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. Cash equivalents 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	Lease term plus any applicable extensions
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%.

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

On November 1, 2019, the Credit Union adopted IFRS 16 Leases, which replaces the guidance in IAS 17 Leases. The following sections outline the current and past accounting policies. Refer to Note 4 for the detailed impact of this change.

Accounting Policies Applicable Beginning November 1, 2019 (IFRS 16)

The Credit Union as a Lessee

Leases are arrangements containing identified assets that the lessee has the right to control, obtain substantially all economic benefit and the right to direct use of the asset.

The leased asset is equal to the value of the lease liability with adjustments for incentives received, initial direct costs, and an estimate of costs to restore the asset to the condition required by the contract. The lease liability is calculated as the present value of the lease payments taking into consideration all allowable adjustments, such as a penalty for termination or exercise price of a purchase option.

Subsequent to initial recognition, leased assets are depreciated on a straight-line basis over the shorter of the asset's estimated useful life and the lease term, in accordance with the accounting policy for property and equipment. Leased land is also depreciated over the lease term. Depreciation expense is recognized on the leased asset and interest expense on the lease liability is recorded in occupancy expenses.

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

The classes of leases currently held by the Credit Union are: land, building, other equipment (signage and vehicles), and computer equipment.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Credit Union typically exercises all extension options on leases. For this reason, the leased asset and liability include all extension options that are expected to be exercised in each individual lease. Due to the nature of business and the work required to set up a branch, contracts with an extension are preferable to maintain the same location and presence in the community long term. While this is the standard application on Credit Union lease options, a reassessment is required when there is a significant event or change.

Accounting Policies Applicable before November 1, 2019 (IAS 17)

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

Leases in which the Credit Union does not transfer substantially all the risks and rewards of the asset are classified as operating leases. Rentals received under operating leases are recognized in other income on a straight-line-basis over the term of the lease. Lease incentives provided are recognized on a straight-line basis over the term of the lease.

Provisions

A provision is recognized if, as a result of a past event, the Credit Union has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognized as a provision is the present value of the expected amount required to settle the obligation, taking into account the risks and uncertainties surrounding the obligation.

Employee Benefits

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

Short-Term Employee Benefits

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Revenue

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.

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.

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.

(Canadian $ thousands, except per share amounts)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 16 Leases

On November 1, 2019 ("date of transition"), the Credit Union adopted IFRS 16 Leases (IFRS 16), which replaced the guidance from IAS 17 Leases. Adopting IFRS 16 has resulted in significant changes to accounting policies for the definition of a lease, recognition and calculation of a right-of-use-asset ("leased asset") and lease liability.

The Credit Union has elected to not restate comparative period financial information, as allowed by the selection of the modified retrospective approach for the transition. As part of the modified retrospective approach, the leased asset was made equal to the lease liability, with adjustments for accounts receivable related to tenant inducement and accounts payable related to accrued rent, which resulted in no adjustment to the retained earnings when IFRS 16 was adopted.

The Credit Union elected to not reassess current contracts for active leases prior to IFRS 16. If a contract was assessed as a lease prior to IFRS 16, it will remain a lease at transition to IFRS 16. IFRS 16 requirements will be applied to contracts that are entered into or changed after the transition date. Practical expedients the Credit Union adopted include relying on the previous assessments for onerous contracts at transition, using hindsight to determine lease terms, and excluding initial direct costs for leases that are active at transition. Finance costs will be recorded under occupancy expenses in the consolidated statement of income.

The weighted average incremental borrowing rate applied to lease liabilities on November 1, 2019 was 4.13%.

The following table reconciles the Credit Union's operating lease commitments at October 31, 2019, to the lease liabilities recognized on the initial application of IFRS 16 at November 1, 2019.

		Total
Operating lease commitments disclosed as at October 31, 2019	$	45,127
Add: extension and termination options reasonably certain to be exercised		29,396
Adjustment related to the effect of discounting cash flows as at November 1, 2019 (4.13%)		(16,267)
Add: financing lease liabilities recognized as at October 31, 2019		639
Lease liabilities recognized as at November 1, 2019	$	58,895

(Canadian $ thousands, except per share amounts)

4. CURRENT AND FUTURE ACCOUNTING CHANGES (CONTINUED)

The table below reflects the impact of IFRS 16 on implementation at November 1, 2019 on the consolidated statement of financial position.

	As at October 31, 2019 IAS 17 Amount	Change	As at November 1, 2019 IFRS 16 Amount
Assets			
Other assets [1]	$ 31,600	$ 191	$ 31,791
Leased assets	–	54,736	54,736
Total assets	31,600	54,927	86,527
Liabilities			
Trade payables and other liabilities [2]	194,424	(3,329)	191,095
Lease liabilities	639	58,256	58,895
Total liabilities	195,063	54,927	249,990

[1] Change related to tenant inducement
[2] Change related to accrued rent

In May 2020, the IASB issued COVID-19 Related Rent Concessions (Amendments to IFRS 16), which provide lessees with an exemption from assessing whether a COVID-19-related rent concession granted until June 2021 is a lease modification. Lessees that apply the exemption must disclose that fact and apply the exemption retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, but prior period figures are not required to be restated. The amendement is effective for annual reporting beginning on or after June 1, 2020. Earlier application is also permitted.

The Credit Union has early adopted this amendment and has no COVID-19 related rent concessions, therefore there is no impact on the Credit Union's consolidated financial statements.

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:

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.

4. CURRENT AND FUTURE ACCOUNTING CHANGES (CONTINUED)

IFRS 11 Joint Arrangements

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

IAS 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.

Future Accounting Changes

Effective for the Credit Union — November 1, 2020

The Credit Union has assessed the following accounting standards effective November 1, 2020 and determined that they will have no impact on the financial statements:

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.

4. CURRENT AND FUTURE ACCOUNTING CHANGES (CONTINUED)

Interest Rate Benchmark Reform

In September 2019, the IASB issued amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, and IFRS 7 Financial Instruments: Disclosures. The amendments clarify that entities would continue to apply certain hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform. In addition, specific disclosures relating to the reform and its impact on entities' hedging relationships is required.

Effective for the Credit Union — November 1, 2021

The impact to the Credit Union of the standards effective November 1, 2021 is not yet assessed:

Interest Rate Benchmark Interbank Offered Rate Reform Phase 2

In August 2020, the IASB published proposals for amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts, and IFRS 16 Leases. The amendments provide guidance to address issues that may affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. The proposed amendments relate to the modification of financial assets and financial liabilities, including lease liabilities, specific hedge accounting requirements, and disclosure requirements applying IFRS 7 to accompany the Board's proposals for classification and measurements and hedge accounting.

Effective for the Credit Union — November 1, 2022

The impact to the Credit Union of the standards effective November 1, 2022 is not yet assessed:

Annual Improvements to IFRS Standards 2018–2020

In May 2020, the IASB issued Annual Improvements to IFRS Standards 2018–2020, amending a number of standards as part of their annual improvements project. The amendment made to IFRS 9 Financial Instruments clarifies which fees are included when applying the "10% test" to assess whether a financial liability is derecognized. To enhance clarity of the treatment of lease incentives under IFRS 16 Leases, Illustrative Example 13 has been amended to remove the illustration of the reimbursements made by the lessor for leasehold improvements.

IAS 16 Property, Plant and Equipment

In May 2020, the IASB issued Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IAS 16). The amendment prohibits deducting from the cost of property, plant, and equipment any proceeds from selling items produced while readying the assets for use. Instead, the proceeds from selling such items, and the cost of producing those items, must be recognized in profit or loss.

IAS 37 Provisions, Contingent Liabilities and Contingent Assets

In May 2020, the IASB issued Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37). The amendment clarifies that the cost of fulfilling a contract is included for the purposes of determining whether a contract is onerous or not. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate of fulfilling the contract.

(Canadian $ thousands, except per share amounts)

4. CURRENT AND FUTURE ACCOUNTING CHANGES (CONTINUED)

Effective for the Credit Union — November 1, 2023

The impact to the Credit Union of the standards effective November 1, 2023 is not yet assessed:

IAS 1 Presentation of Financial Statements

In January 2020, the IASB issued amendments to IAS 1 to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. In July 2020, the IASB issued amendments to IAS 1 to defer the effective date of the January 2020 amendments from annual periods beginning on or after January 1, 2022 to January 1, 2023.

5. CASH AND CASH EQUIVALENTS

	As at October 31 2020	As at October 31 2019
Cash on hand	$ 12,868	$ 14,992
ATM cash	9,385	9,263
Cash held in foreign currencies	529	703
Cash with Alberta Central	166,337	82,900
Cheques and items in transit	(165)	(98)
Total	$ 188,954	$ 107,760

6. INVESTMENTS

	As at October 31 2020	As at October 31 2019
Term deposits with Alberta Central	$ 1,274,511	$ 1,191,203
Term deposits with other financial institutions	350,000	5,472
Other	276	275
	1,624,787	1,196,950
Accrued interest	2,599	1,960
	1,627,386	1,198,910
ECL allowance on investments	(1)	(2)
Total	$ 1,627,385	$ 1,198,908

(Canadian $ thousands, except per share amounts)

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, 2020						
Residential mortgages	**$ 7,879,028**	**$ 578,863**	**$ 23,075**	**$ 8,480,966**	**$ 6,983**	**$ 8,473,983**
Commercial and agriculture	**4,850,499**	**386,648**	**53,031**	**5,290,178**	**43,807**	**5,246,371**
Consumer and credit card	**1,041,674**	**95,557**	**3,822**	**1,141,053**	**16,144**	**1,124,909**
Total members' loans	**$ 13,771,201**	**$ 1,061,068**	**$ 79,928**	**$ 14,912,197**	**$ 66,934**	**$ 14,845,263**
As at October 31, 2020						
Residential mortgages	**$ 2,040,368**	**$ 13,881**	**$ 910**	**$ 2,055,159**	**$ 360**	**$ 2,054,799**
Commercial and agriculture	**1,153,117**	**4,925**	**245**	**1,158,287**	**1,394**	**1,156,893**
Consumer and credit card	**1,045,693**	**17,239**	**673**	**1,063,605**	**5,749**	**1,057,856**
Loan commitments and guarantees*	**46,651**	**–**	**–**	**46,651**	**59**	**46,592**
Total off balance sheet credit instruments	**$ 4,285,829**	**$ 36,045**	**$ 1,828**	**$ 4,323,702**	**$ 7,562**	**$ 4,316,140**

*collectively assessed

	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 and credit card	1,111,651	130,332	7,354	1,249,337	15,087	1,234,250
Total members' 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	5,740	249	1,044,154	683	1,043,471
Consumer 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	$ 3,560,501	$ 43,516	$ 2,315	$ 3,606,332	$ 6,064	$ 3,600,268

*collectively assessed

8. ALLOWANCE FOR CREDIT LOSSES

Key Data and Assumptions

Estimating the allowance for expected credit losses is based on a set of inputs, assumptions and methodologies placed around credit risk and future looking macroeconomic indicators and therefore requires significant judgment. Management has made complex and subjective judgments to assess the adequacy of the assumptions used to calculate the expected credit losses at October 31, 2020 in response to the uncertainty caused by COVID-19 discussed in Note 2.

These inputs and assumptions are assessed each reporting period considering both positive and negative aspects of the current economic environment. ECL models use some historical information in their methodologies and assumptions, and therefore are not able to address all considerations of the current economic state. Sensitivities are performed to address this by changing the input or assumptions based on the best information that is available. Where a sensitivity shows that the loan book has a risk that is not adequately covered by the model calculation, the sensitivity is used to provide justification of any overlay that is applied to the ECL. At October 31, 2020, management has applied an overlay of $14.0 million on the commercial, consumer, residential mortgages, and credit card book.

The main areas where judgment is used in the ECL model is in the assessment of whether there is a significant increase in credit risk on deferred loans, the probability that a member will default on a loan (PD), forecasted future looking macroeconomic indicators (FLI) and the weightings to be used on the base, best and worst case scenarios for the FLIs.

The Credit Union uses a model created by Central 1 (the model) to estimate the expected credit loss. Changes in inputs and the assumptions used have an impact on the assessment of significant increase in credit risk and the measurement of ECLs. FLIs used in the model to reflect the current economic situation have a significant impact on the calculation and have changed significantly during the year due to the pandemic.

The macroeconomic factors that affect the Credit Union ECL calculations are: Alberta unemployment rates, Alberta housing price index and the rate spread between the three-month Bank of Canada bond and three-month Bankers' Acceptance rates. Each factor is forecast in three scenarios, a base case, a best case and a worst-case scenario. These scenarios are weighted, and the weighted average is used to build the calculated estimate for expected credit losses. The table below shows the significant changes in factors as forecasts have changed substantially since October 2019.

(Canadian $ thousands, except per share amounts)

8. ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

		12 Month Average Forecast			5 Year Average Forecast		
	As at	Base Case	Best Case	Worst Case	Base Case	Best Case	Worst Case
3 Month GOC Bond Rate*							
	October 31, 2019	1.40	2.06	0.44	1.58	3.38	0.58
	April 30, 2020	0.49	0.66	0.48	1.21	1.88	0.45
	July 31, 2020	0.25	0.25	0.25	0.61	0.80	0.31
	October 31, 2020	**0.15**	**0.31**	**0.15**	**0.58**	**1.58**	**0.24**
3 Month BA Rate**							
	October 31, 2019	1.67	2.33	0.72	1.85	3.63	0.86
	April 30, 2020	0.82	1.00	0.80	1.53	2.19	0.73
	July 31, 2020	0.62	0.55	0.70	1.05	1.14	0.78
	October 31, 2020	**0.50**	**0.60**	**0.63**	**0.99**	**1.94**	**0.75**
Unemployment Rate							
	October 31, 2019	6.90	4.70	8.94	6.20	3.96	8.40
	April 30, 2020	13.13	12.33	14.63	7.90	6.86	9.85
	July 31, 2020	11.98	9.93	13.32	7.87	5.73	9.49
	October 31, 2020	**10.75**	**9.50**	**12.77**	**8.12**	**6.26**	**9.38**
Housing Price Index (HPI)							
	October 31, 2019	189.48	192.74	178.88	196.02	205.57	177.40
	April 30, 2020	175.60	183.00	168.07	173.84	192.48	163.22
	July 31, 2020	178.69	192.64	170.15	180.67	209.06	165.82
	October 31, 2020	**186.02**	**198.52**	**180.30**	**191.40**	**216.63**	**179.56**

*GOC – Government of Canada
**BA – Bankers' Acceptance

Changes to the FLI forecast will also affect the calculations for PD. For each reporting period, management has run several sensitivities on the FLIs and scenario weightings. This includes adjusting for what management has been experiencing in the Alberta economy since the start of the pandemic and comparing to various forecasts specific to Alberta. Management uses the best information available to run these sensitivities.

Staging also has a significant impact on PD calculations. When there is a significant increase in credit risk, a loan will move to a higher stage, for example from Stage 1 to Stage 2. Both stages are still considered performing, however Stage 2 has a significantly higher PD% than Stage 1 resulting in a higher ECL. At the beginning of the pandemic, many three to six-month loan deferrals were granted. Management assessed these deferrals as not having a significant increase in credit risk simply due to the deferral, but also assessed the other factors (FICO score, business risk rating, delinquency, financial situation) that would result in an increase in credit risk. As these deferrals expire, any additional deferrals granted will be assessed in a similar manner.

Sensitivities around the weights of the macroeconomic factors were also performed. This assessment involved looking at the FLI for each of the best, base and worst-case scenarios and determining the probability of each scenario. Management assesses this each reporting period as well, based on the best information available. At October 31, 2020 Management concluded that weighting to be used is a 60% base, 20% best and 20% worst-case (prior year - 80% base, 10% best, and 10% worst-case).

(Canadian $ thousands, except per share amounts)

8. ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

The following table presents the changes in the allowance for credit losses.

	Residential Mortgages	Commercial and Agriculture	Consumer and Credit Card	Collectively Assessed [1]	Total
As at October 31, 2019	**$ 5,107**	**$ 19,543**	**$ 20,176**	**$ 112**	**$ 44,938**
Recoveries of previous loan write-offs	**1**	**280**	**4,978**	**–**	**5,259**
Provision charged to net income	**4,466**	**28,419**	**12,458**	**(53)**	**45,290**
	9,574	**48,242**	**37,612**	**59**	**95,487**
Loans written off	**(2,231)**	**(3,041)**	**(15,719)**	**–**	**(20,991)**
As at October 31, 2020	**$ 7,343**	**$ 45,201**	**$ 21,893**	**$ 59**	**$ 74,496**
Presented on Consolidated Statement of Financial Position as:					
Netted with members' loans	**6,983**	**43,807**	**16,144**	**–**	**66,934**
Off balance sheet credit instruments[2]	**360**	**1,394**	**5,749**	**59**	**7,562**
Total	**$ 7,343**	**$ 45,201**	**$ 21,893**	**$ 59**	**$ 74,496**

	Residential Mortgages	Commercial and Agriculture	Consumer and Credit Card	Collectively Assessed [1]	Total
As at October 31, 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 members' 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, 2020 is:

Loans		$ 45,290
Investments	Note 6	(1)
Provision for credit losses		**$ 45,289**

(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 October 31, 2019	**$ 1,547**	**$ 2,679**	**$ 881**	**$ 5,107**
Transfers				
Stage 1 [1]	**479**	**(473)**	**(6)**	**–**
Stage 2 [1]	**(1,772)**	**1,936**	**(164)**	**–**
Stage 3 [1]	**(672)**	**(1,279)**	**1,951**	**–**
New originations [2]	**478**	**941**	**–**	**1,419**
Repayments [3]	**(228)**	**(330)**	**(347)**	**(905)**
Remeasurements [4]	**2,164**	**384**	**1,404**	**3,952**
Loans written off	**–**	**–**	**(2,231)**	**(2,231)**
Recoveries	**–**	**–**	**1**	**1**
As at October 31, 2020	**$ 1,996**	**$ 3,858**	**$ 1,489**	**$ 7,343**
Presented on Consolidated Statement of Financial Position as:				
Netted with members' loans	**1,708**	**3,786**	**1,489**	**6,983**
Off balance sheet credit instruments	**288**	**72**	**–**	**360**
Total	**$ 1,996**	**$ 3,858**	**$ 1,489**	**$ 7,343**

	Performing		Impaired	
	Stage 1	Stage 2	Stage 3	Total
As at October 31, 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]	(533)	(1,383)	(1,723)	(3,639)
Remeasurements [4]	2,296	1,170	3,902	7,368
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:				
Netted with members' 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 loans fully repaid or derecognized and excludes 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 – Commercial and Agriculture

	Performing		Impaired	
	Stage 1	**Stage 2**	**Stage 3**	**Total**
As at October 31, 2019	**$ 3,226**	**$ 1,321**	**$ 14,996**	**$ 19,543**
Transfers				
Stage 1 [1]	**265**	**(148)**	**(117)**	**–**
Stage 2 [1]	**(2,305)**	**5,045**	**(2,740)**	**–**
Stage 3 [1]	**(12,176)**	**(3,190)**	**15,366**	**–**
New originations [2]	**1,569**	**73**	**124**	**1,766**
Repayments [3]	**(464)**	**(1,749)**	**(1,065)**	**(3,278)**
Remeasurements [4]	**17,530**	**13,119**	**(718)**	**29,931**
Loans written off	**–**	**–**	**(3,041)**	**(3,041)**
Recoveries	**–**	**–**	**280**	**280**
As at October 31, 2020	**$ 7,645**	**$ 14,471**	**$ 23,085**	**$ 45,201**
Presented on Consolidated Statement of Financial Position as:				
Netted with members' loans	**6,313**	**14,451**	**23,043**	**43,807**
Off balance sheet credit instruments	**1,332**	**20**	**42**	**1,394**
Total	**$ 7,645**	**$ 14,471**	**$ 23,085**	**$ 45,201**

	Performing		Impaired	
	Stage 1	Stage 2	Stage 3	Total
As at October 31, 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]	(985)	(372)	(7,244)	(8,601)
Remeasurements [4]	7,584	4,484	(1,876)	10,192
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:				
Netted with members' 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 loans fully repaid or derecognized and excludes 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 October 31, 2019	**$ 7,162**	**$ 9,433**	**$ 3,581**	**$ 20,176**
Transfers				
Stage 1 [1]	**1,371**	**(1,321)**	**(50)**	**–**
Stage 2 [1]	**(5,647)**	**6,254**	**(607)**	**–**
Stage 3 [1]	**(1,896)**	**(5,278)**	**7,174**	**–**
New originations [2]	**2,945**	**987**	**–**	**3,932**
Repayments [3]	**(921)**	**(729)**	**(3,265)**	**(4,915)**
Remeasurements [4]	**5,911**	**1,991**	**5,539**	**13,441**
Loans written off	**–**	**–**	**(15,719)**	**(15,719)**
Recoveries	**–**	**–**	**4,978**	**4,978**
As at October 31, 2020	**$ 8,925**	**$ 11,337**	**$ 1,631**	**$ 21,893**
Presented on Consolidated Statement of Financial Position as:				
Netted with members' loans	**4,638**	**9,904**	**1,602**	**16,144**
Off balance sheet credit instruments	**4,287**	**1,433**	**29**	**5,749**
Total	**$ 8,925**	**$ 11,337**	**$ 1,631**	**$ 21,893**

	Performing		Impaired	
	Stage 1	Stage 2	Stage 3	Total
As at October 31, 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]	(7,083)	(9,255)	(11,554)	(27,892)
Remeasurements [4]	11,687	9,965	15,168	36,820
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:				
Netted with members' 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 loans fully repaid or derecognized and excludes 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)

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, 2020	**Residential Mortgages**	**Commercial and Agriculture**	**Consumer and Credit Card**	**Total**
Risk Categories				
Very low risk	**$ 3,206,045**	**$ 25,629**	**$ 312,475**	**$ 3,544,149**
Low risk	**3,600,997**	**2,098,574**	**440,835**	**6,140,406**
Medium risk	**1,148,203**	**2,981,280**	**195,509**	**4,324,992**
High risk	**502,646**	**131,664**	**188,412**	**822,722**
Impaired	**23,075**	**53,031**	**3,822**	**79,928**
Total members' loans	**$ 8,480,966**	**$ 5,290,178**	**$ 1,141,053**	**$ 14,912,197**

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 members' 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, 2020	**Residential Mortgages**	**Commercial and Agriculture**	**Consumer and Credit Card**	**Loan Commitments and Guarantees**	**Total**
Risk Categories					
Very low risk	**$ 1,012,280**	**$ 122,718**	**$ 597,912**	**$ –**	**$ 1,732,910**
Low risk	**985,866**	**803,924**	**306,116**	**46,651**	**2,142,557**
Medium risk	**48,904**	**230,836**	**60,050**	**–**	**339,790**
High risk	**7,199**	**564**	**98,854**	**–**	**106,617**
Impaired	**910**	**245**	**673**	**–**	**1,828**
Total off balance sheet credit instruments	**$ 2,055,159**	**$ 1,158,287**	**$ 1,063,605**	**$ 46,651**	**$ 4,323,702**

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	46,463	1,668,700
Medium risk	48,302	145,188	69,619	–	263,109
High risk	7,902	975	99,870	–	108,747
Impaired	1,153	249	913	–	2,315
Total off balance sheet credit instruments	$ 1,445,497	$ 1,044,154	$ 1,070,218	$ 46,463	$ 3,606,332

(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 FICO Score Range	Consumer & Credit Card FICO 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

Loans Past Due, as at October 31, 2020	Up to 30 Days	31 – 59 Days	60 – 89 Days	Over 90 Days	Total
Stage 1					
Residential mortgages	**$ 87,933**	**$ –**	**$ –**	**$ –**	**$ 87,933**
Commercial and agriculture	**15,698**	**–**	**–**	**–**	**15,698**
Consumer and credit card	**17,884**	**–**	**–**	**–**	**17,884**
Stage 2					
Residential mortgages	**34,333**	**26,947**	**6,188**	**7,797**	**75,265**
Commercial and agriculture	**1,832**	**36,052**	**1,730**	**40,413**	**80,027**
Consumer and credit card	**7,495**	**5,838**	**2,005**	**486**	**15,824**
Stage 3					
Residential mortgages	**–**	**–**	**–**	**22,467**	**22,467**
Commercial and agriculture	**19**	**15,190**	**182**	**33,698**	**49,089**
Consumer and credit card	**–**	**–**	**–**	**3,768**	**3,768**
Total	**$ 165,194**	**$ 84,027**	**$ 10,105**	**$ 108,629**	**$ 367,955**

Loans Past Due, as at October 31, 2019	Up to 30 Days	31 – 59 Days	60 – 89 Days	Over 90 Days	Total
Stage 1					
Residential mortgages	$ 79,391	$ –	$ –	$ –	$ 79,391
Commercial and agriculture	45,263	–	–	–	45,263
Consumer and credit card	19,001	–	–	–	19,001
Stage 2					
Residential mortgages	38,037	39,277	12,909	12,428	102,651
Commercial and agriculture	360	46,956	1,357	10,299	58,972
Consumer and credit card	10,768	11,586	4,313	440	27,107
Stage 3					
Residential mortgages	–	–	–	15,640	15,640
Commercial and agriculture	248	1,887	5,577	48,470	56,182
Consumer and credit card	–	–	–	7,209	7,209
Total	$ 193,068	$ 99,706	$ 24,156	$ 94,486	$ 411,416

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

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

(Canadian $ thousands, except per share amounts)

9. CREDIT QUALITY OF MEMBERS' LOANS (CONTINUED)

Loans by Security	As at October 31 2020	As at October 31 2019
Insured loans and mortgages	$ 3,013,715	$ 2,858,878
Secured by mortgage	10,413,991	10,039,077
Secured by other	954,541	1,135,922
Unsecured loans	319,736	311,585
Unsecured mastercard	210,214	235,371
Total	$ 14,912,197	$ 14,580,833

During the year a number of loans were modified through renegotiation on lower interest rates, deferrals, and early renewals. A loss due to modifications of $2.6 million was recognized for the year ended October 31, 2020 (2019 – nil).

10. ASSETS HELD FOR SALE

	As at October 31 2020	As at October 31 2019
Foreclosed property	$ 5,633	$ 9,697
Other land and buildings	1,038	3,114
Total	$ 6,671	$ 12,811

Management has concluded that an impairment on assets held for sale was required to be recorded by the Credit Union. An impairment loss of $730 (2019 – $693) has been recorded in the consolidated statement of income.

11. OTHER ASSETS

	As at October 31 2020	As at October 31 2019
Accounts receivable and other receivables	$ 8,128	$ 11,076
Prepaid expenses	22,277	20,524
Total	$ 30,405	$ 31,600

(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, 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
Additions	–	2,401	1,343	2,467	4,970	–	11,181
Impairment	–	(3)	–	–	–	–	(3)
Disposals	–	(618)	(1,917)	(2,826)	(1,725)	–	(7,086)
Transfer (to) from assets held for sale	(489)	(1,278)	–	3	–	–	(1,764)
Transfer to investment property	–	(215)	–	–	–	–	(215)
Transfer to leased assets	–	–	–	–	–	(853)	(853)
Balance as at October 31, 2020	**$ 26,354**	**$ 157,589**	**$ 40,911**	**$ 29,882**	**$ 25,328**	**$ –**	**$ 280,064**
Accumulated Depreciation							
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
Depreciation	–	4,637	1,858	2,247	2,402	–	11,144
Disposals	–	(494)	(1,904)	(2,764)	(1,599)	–	(6,761)
Transfer to assets held for sale	–	(428)	–	–	–	–	(428)
Transfer from investment property	–	9	–	–	–	–	9
Transfer to leased assets	–	–	–	–	–	(231)	(231)
Balance as at October 31, 2020	**$ –**	**$ 74,950**	**$ 30,086**	**$ 21,559**	**$ 16,127**	**$ –**	**$ 142,722**
Net Book Value							
At October 31, 2019	26,843	86,076	11,353	8,162	6,759	622	139,815
At October 31, 2020	**26,354**	**82,639**	**10,825**	**8,323**	**9,201**	**–**	**137,342**

(Canadian $ thousands, except per share amounts)

13. LEASES

		Land	Buildings	Other Equipment	Computer Equipment	Total
Cost						
Balance as at October 31, 2019		$ –	$ –	$ –	$ –	$ –
Transition adjustment	Note 4	2,871	51,373	492	–	54,736
Balance as at November 1, 2019		**$ 2,871**	**$ 51,373**	**$ 492**	**$ –**	**$ 54,736**
Additions		104	6,337	42	–	6,483
Transfer from property and equipment		–	–	–	853	853
Disposals		–	(2,465)	(25)	–	(2,490)
Balance as at October 31, 2020		**$ 2,975**	**$ 55,245**	**$ 509**	**$ 853**	**$ 59,582**
Accumulated Depreciation						
Balance as at October 31, 2019		$ –	$ –	$ –	$ –	$ –
Depreciation		143	5,678	66	213	6,100
Transfer from property and equipment		–	–	–	231	231
Disposals		–	(225)	(11)	–	(236)
Balance as at October 31, 2020		**$ 143**	**$ 5,453**	**$ 55**	**$ 444**	**$ 6,095**
Net Book Value						
At October 31, 2020		**2,832**	**49,792**	**454**	**409**	**53,487**

On November 1, 2019, the date of transition for IFRS 16, the Credit Union had non-cash additions to leased assets of $54,736. For the year ended October 31, 2020, the Credit Union had non-cash additions to leased assets of $6,483, lease liabilities of $6,619 and interest expense related to leases of $2,408. Lease interest expense is recorded in occupancy expense and leased assets depreciation is recorded in depreciation expense in the consolidated statement of income.

The Credit Union does not currently have income from subleasing leased assets.

Present value of future lease payments are as follows:

	As at October 31 2020
Within 1 year	$ 7,471
Between 1 and 5 years	24,712
After 5 years	43,823
Total future lease payments	**$ 76,006**
Less present value discount	17,882
Total lease liabilities	**$ 58,124**

(Canadian $ thousands, except per share amounts)

14. INVESTMENT PROPERTY

		Land		Buildings		Total
Cost						
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
Transfer from property and equipment		–		215		215
Transfer from assets held for sale		381		1,692		2,073
Disposals		(503)		–		(503)
Balance as at October 31, 2020	**$**	**1,523**	**$**	**10,296**	**$**	**11,819**
Accumulated Depreciation						
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
Depreciation		–		291		291
Transfer to property and equipment		–		(9)		(9)
Balance as at October 31, 2020	**$**	**–**	**$**	**5,699**	**$**	**5,699**
Net Book Value						
At October 31, 2019		1,645		2,972		4,617
At October 31, 2020		**1,523**		**4,597**		**6,120**

The fair value of investment property held is $12,320 (2019 – $10,831) and is determined by external valuation on a rotating basis every three years.

Income Related To Investment Property		**As at October 31 2020**		As at October 31 2019
Rental income	$	**1,207**	$	1,194
Direct operating expense from property generating rental income		**766**		868
Total	$	**441**	$	326

Future rental payments receivable are as follows:

		As at October 31 2020		As at October 31 2019
Less than 1 year	$	**645**	$	719
Between 1 and 5 years		**636**		806
More than 5 years		**75**		7
Total	$	**1,356**	$	1,532

(Canadian $ thousands, except per share amounts)

15. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

As at October 31, 2020	**Equity-linked Options**	**Interest Rate Swaps**	**Total**
Derivative Financial Assets			
Gross financial assets before offsetting	$ –	$ 14,737	$ 14,737
Gross financial liabilities before offsetting	–	(6,060)	(6,060)
Net derivative financial assets presented in the statement of financial position	–	8,677	8,677
Amounts not subject to enforceable netting arrangements	4,353	–	4,353
Total	$ 4,353	$ 8,677	$ 13,030
Derivative Financial Liabilities			
Gross financial assets before offsetting	$ –	$ (7,406)	$ (7,406)
Gross financial liabilities before offsetting	–	7,808	7,808
Net derivative financial liabilities presented in the statement of financial position	–	402	402
Amounts not subject to enforceable netting arrangements	4,271	–	4,271
Total	$ 4,271	$ 402	$ 4,673

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

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 2020**	As at October 31 2019
Interest rate swaps receive fixed, pay floating	$ 800,000	$ 200,000	$ 850,000	$ 1,850,000	$ 2,000,000
Equity-linked options	3,490	25,010	17,525	46,025	76,405
Total	$ 803,490	$ 225,010	$ 867,525	$ 1,896,025	$ 2,076,405

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 indices. 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.

(Canadian $ thousands, except per share amounts)

15. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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.

16. 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, 2020, is 57.3% (2019 – 57.9%).

Alberta Central	As at October 31 2020	As at October 31 2019
Opening balance	$ 193,795	$ 184,587
Purchase of additional shares	963	3,940
Share of profits	6,780	7,897
Share of other comprehensive income	2,185	2,531
Distributions	(5,872)	(5,160)
Total	$ 197,851	$ 193,795

Financial Information for Alberta Central	As at October 31 2020 (Unaudited)	As at October 31 2019 (Unaudited)
Assets	$ 3,584,296	$ 3,463,070
Liabilities	3,231,601	3,120,112
Revenues	49,427	61,890
Income before distributions	9,276	11,367
Other comprehensive income	3,812	4,377

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 2020	As at October 31 2019
Cash	$ 166,337	$ 82,900
Term deposits	1,274,511	1,191,203
Accrued interest on term deposits	1,271	1,895
Other assets	8,402	2,032
Trade payables and other liabilities	414	1,581

	2020	2019
Interest income	$ 23,402	$ 20,352
Interest expense	1,432	1,526
Other income	17	729
Data processing, memberships fees and other	11,209	10,596

(Canadian $ thousands, except per share amounts)

17. INTANGIBLE ASSETS

	Purchased Software and Other	Internally Developed Software	Computer Software Under Development	Credit Card Related Intangible	Total
Cost					
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
Additions	264	–	12,559	–	12,823
Disposals	(556)	(74)	–	–	(630)
Impairment	–	–	(191)	–	(191)
Transfers	–	6,886	(6,886)	–	–
Balance as at October 31, 2020	**$ 3,530**	**$ 83,477**	**$ 6,486**	**$ 28,707**	**$ 122,200**
Accumulated Amortization					
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
Amortization	512	7,723	–	2,871	11,106
Disposals	(387)	(73)	–	–	(460)
Balance as at October 31, 2020	**$ 2,703**	**$ 49,816**	**$ –**	**$ 7,895**	**$ 60,414**
Net Book Value					
As at October 31, 2019	1,244	34,499	1,004	23,683	60,430
As at October 31, 2020	**827**	**33,661**	**6,486**	**20,812**	**61,786**

Management has concluded that an impairment on intangible assets was required to be recorded by the Credit Union. An impairment loss of $191 (2019 – $433) has been recorded in the consolidated statement of income.

(Canadian $ thousands, except per share amounts)

18. INCOME TAXES

Income tax expense:

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

Income Tax Expense		2020		2019
Current tax expense				
Based on current year taxable income	$	23,905	$	30,238
Adjustments for under (over) provision in prior periods		230		(184)
Sub total		24,135		30,054
Deferred tax (recovery) expense				
Origination and reversal of temporary differences		(3,686)		2,415
Adjustments for (over) under provision in prior periods		(188)		25
Sub total		(3,874)		2,440
Total	$	20,261	$	32,494

Reconciliation of effective tax rate:

		2020			2019	
Income before income taxes	$	81,046		$	133,087	
Income tax expense based on statutory rate		19,848	24.49%		35,494	26.67%
Effect on non-deductible expenses		(167)	(0.21%)		(96)	(0.07%)
Effect of tax rate change		411	0.51%		(1,588)	(1.19%)
Adjustments for under (over) provision in prior periods		42	0.05%		(159)	(0.12%)
Non-taxable gain on amalgamations		–	–		(1,407)	(1.06%)
Other		127	0.16%		250	0.19%
Total income tax expense	$	20,261	25.00%	$	32,494	24.42%

(Canadian $ thousands, except per share amounts)

18. INCOME TAXES (CONTINUED)

Deferred tax assets and liabilities:

The movement in deferred tax assets and liabilities is:

	As at October 31 2019	IFRS 16 Reclassifi-cation	Recognized in Net Income	Recognized in OCI	As at October 31 2020
Servus deferred tax liability:					
Member loans	$ 6,787	$ –	$ 5,028	$ –	$ 11,815
Property and equipment	(13,322)	–	(562)	–	(13,884)
Derivative instruments	(18)	–	(152)	–	(170)
Investment in associate	(10,413)	–	(209)	(502)	(11,124)
Employee benefits & other payables	5,224	(154)	(1,143)	132	4,059
Leases	–	154	912	–	1,066
Total	(11,742)	–	3,874	(370)	(8,238)
Net consolidated deferred tax	**$ (11,742)**	**$ –**	**$ 3,874**	**$ (370)**	**$ (8,238)**

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)	$ –
Total	607	–	–	(607)	–
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 and 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)

(Canadian $ thousands, except per share amounts)

19. BORROWINGS

	As at October 31 2019	Cash Inflows	Cash Outflows	As at October 31 2020	Interest Payments
Line of credit	$ –	$ 359,871	$ (359,871)	$ –	$ 47
Revolving	–	101,000	(101,000)	–	596
Non-Revolving	200,000	–	–	200,000	3,301
Total	**$ 200,000**	**$ 460,871**	**$ (460,871)**	**$ 200,000**	**$ 3,944**

	As at October 31 2018	Cash Inflows	Cash Outflows	As at October 31 2019	Interest Payments
Line of credit	$ –	$ 1,233,149	$ (1,233,149)	$ –	$ 241
Revolving	–	650,000	(650,000)	–	1,187
Non-Revolving	250,000	–	(50,000)	200,000	6,946
Total	$ 250,000	$ 1,883,149	$ (1,883,149)	$ 200,000	$ 8,374

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 maturity date of the credit facility is October 30, 2021.

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.

(Canadian $ thousands, except per share amounts)

19. BORROWINGS (CONTINUED)

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

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

Non-Revolving Credit Facility

The Credit Union has a $200,000 loan facility that was funded with CIBC on February 1, 2018 and amended on December 18, 2019.

The amended facility is a non-revolving credit facility with interest calculated at a spread above the 30 day banker's acceptance rate. The maturity date of the amended credit facility is February 1, 2022.

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.

20. SECURITIZATION LIABILITIES

	Maturity Date	Interest Rate	As at October 31 2020	As at October 31 2019
Securitization liabilities	Nov 6, 2020 to Dec 1, 2028	0.332% to 2.475%	$ **1,148,433**	$ 1,144,015

Securitization liabilities interest payments made for the year are $25,775 (2019 – $26,442). Interest received for unsold mortgage pools during the year are $4,546 (2019 – $3,782).

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, 2020, of the associated residential and commercial mortgages held as security is $1,399,919 (2019 – $1,396,839). 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.

21. MEMBERS' DEPOSITS

	As at October 31 2020	As at October 31 2019
Demand accounts	$ **7,682,446**	$ 6,653,801
Term deposits	**4,001,873**	4,346,578
Registered plans	**2,105,399**	2,056,077
Other deposits	**13,347**	13,021
	13,803,065	13,069,477
Accrued interest	**53,495**	61,920
Total	$ **13,856,560**	$ 13,131,397

(Canadian $ thousands, except per share amounts)

22. TRADE PAYABLES AND OTHER LIABILITIES

		As at October 31 2020		As at October 31 2019
Cheques and other items in transit	**$**	**20,635**	$	21,810
Accounts payable		**153,484**		126,542
Credit card points liability		**8,505**		8,307
Dividend and patronage to members		**32,452**		31,426
Deferred income		**6,780**		6,025
Legal provisions		**257**		314
Total	**$**	**222,113**	$	194,424

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 October 31, 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
Additional provisions recognized		3
Amounts incurred and charged against existing provisions		(55)
Unused amounts reversed		(5)
Balance as at October 31, 2020	**$**	**257**

(Canadian $ thousands, except per share amounts)

23. EMPLOYEE BENEFITS

	2020	2019
Short-term employee benefits	$ 200,175	$ 193,342
Post-employment benefits	9,725	9,465
Termination benefits	1,770	2,024
Total	$ 211,670	$ 204,831

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	2020	2019
Net benefit plan cost in net income				
Current service cost	$ 167	$ –	$ 167	$ 165
Interest cost	138	46	184	239
Total	305	46	351	404
Defined contribution registered retirement savings plan – Credit Union contributions	9,750	–	9,750	9,483
Total	10,055	46	10,101	9,887
Actuarial loss (gain) recognized in other comprehensive income	1,373	(652)	721	183
Total	$ 11,428	$ (606)	$ 10,822	$ 10,070

Accrued Benefit Obligation and Liability	Pension Plans	Other Benefit Plans	As at October 31 2020	As at October 31 2019
Unfunded accrued benefit obligation				
Balance, beginning of year	$ 5,813	$ 1,742	$ 7,555	$ 7,356
Current service cost	167	–	167	165
Interest cost	138	46	184	239
Benefits paid	(247)	(71)	(318)	(330)
Actuarial loss	381	157	538	125
Balance, end of year	$ 6,252	$ 1,874	$ 8,126	$ 7,555

	Pension Plans	Other Benefit Plans	2020	2019
Included in personnel expense				
Current service cost	$ 167	$ –	$ 167	$ 165
Interest cost	138	46	184	239
Benefits paid	(247)	(71)	(318)	(330)
Total	$ 58	$ (25)	$ 33	$ 74

	Pension Plans		Other Benefit Plans	
	2020	2019	2020	2019
Discount rate	1.90%	2.80%	1.80%	2.70%

(Canadian $ thousands, except per share amounts)

23. EMPLOYEE BENEFITS (CONTINUED)

Changes in the assumed health care cost trend rates for the post-retirement benefit plans for the year ended October 31, 2020, are:

Effect on:		Inflation increased by 1%		Discount rate decreased by 1%
Accrued benefit obligation	$	6	$	224

Experience Adjustments		2020		2019
Accrued benefit obligation and plan deficit	$	**8,126**	$	7,555
Experience loss		**538**		125
Tax recovery		**(132)**		(33)
Net experience loss	$	**406**	$	92

Defined benefit contributions expected to be paid in 2021	$	**318**

24. SHARE CAPITAL

Common Shares

Common shares have the following characteristics:

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

Series A to G Investment Shares

Series A to G Investment Shares have the following characteristics:

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

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

(Canadian $ thousands, except per share amounts)

24. SHARE CAPITAL (CONTINUED)

	Issued and Outstanding as at October 31 2019	Issued	Redeemed and Transferred	Dividends Declared	Issued and Outstanding as at October 31 2020	Investment Share Liability Portion
Common shares total	**$ 560,793**	**$ 19,816**	**$ (30,571)**	**$ 16,337**	**$ 566,375**	
Investment shares						
Series A	**54,116**	**–**	**(2,868)**	**2,074**	**53,322**	**–**
Series B	**8,101**	**–**	**(254)**	**317**	**8,164**	**–**
Series C	**20,903**	**–**	**(707)**	**816**	**21,012**	**–**
Series D	**32,670**	**–**	**(1,618)**	**1,256**	**32,308**	**–**
Series E	**4,317**	**–**	**(72)**	**189**	**4,434**	**434**
Series F	**578**	**–**	**(19)**	**23**	**582**	**–**
Series G	**370**	**–**	**(32)**	**14**	**352**	**–**
Investment shares total	**$ 121,055**	**$ –**	**$ (5,570)**	**$ 4,689**	**$ 120,174**	**$ 434**
Share capital total	**$ 681,848**	**$ 19,816**	**$ (36,141)**	**$ 21,026**	**$ 686,549**	**$ –**

	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	$ –

Patronage and Dividends Payable in Cash or Shares	**2020**	2019
Patronage allocation to members in cash	**$ 33,347**	$ 32,370
Common share dividend	**16,337**	19,256
Investment share dividend	**4,689**	5,380
Total	**$ 54,373**	$ 57,006

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 (%)	**2020**	2019
Common share	**3.05%**	3.65%
Investment share	**4.05%**	4.65%

(Canadian $ thousands, except per share amounts)

25. INVESTMENT INCOME

		2020		2019
Investment income on loans and receivables other than members' loans	$	**16,048**	$	24,938
Unrealized gain on derivative instruments		**672**		6,552
Realized gain (loss) on derivative instruments		**8,743**		(3,413)
Total	$	**25,463**	$	28,077

26. OTHER INTEREST EXPENSE

		2020		2019
Term loans	$	**3,942**	$	8,083
Line of credit		**47**		241
Securitization liabilities		**36,324**		25,630
Other		**577**		9
Total	$	**40,890**	$	33,963

27. OTHER INCOME

		2020		2019
Commissions and fees	$	**58,178**	$	54,977
Account service charges		**32,197**		35,040
Credit card fee revenue		**24,308**		25,178
Foreign exchange income		**2,398**		2,982
Operating lease income		**931**		933
Gain on amalgamations		**–**		3,814
Gain on sale of mortgage backed security bonds		**–**		156
Loss on loan modifications		**(2,596)**		–
Other		**979**		1,207
Total	$	**116,395**	$	124,287

28. 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. The inputs to primary capital and secondary capital are noted below.

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, Credit Union (Principal) Regulations, 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, 2020, and 2019, the Credit Union's capital ratio was greater than the minimum requirement.

(Canadian $ thousands, except per share amounts)

28. CAPITAL MANAGEMENT (CONTINUED)

The chart below details the amounts that are included in the 2020 and 2019 capital calculations. Regulator and internal management capital requirements are noted after this chart.

	As at October 31 2020	As At October 31 2019
Primary Capital:		
Retained earnings	$ 954,279	$ 909,369
Common shares	566,375	560,793
Investment shares (qualifying as primary)	108,547	109,326
Accumulated other comprehensive income	12,373	11,097
Total primary capital	1,641,574	1,590,585
Secondary Capital:		
Credit loss allowance – performing	48,292	25,482
Deferred income tax liabilities	8,238	11,742
Investment shares (qualifying as secondary)	12,061	12,147
Total secondary capital	68,591	49,371
Deductions From Primary Capital:		
Intangible assets	61,786	60,430
Subsidiary and affiliate investments	49,086	45,993
Total deductions from capital	110,872	106,423
Total capital available	$ 1,599,293	$ 1,533,533
Capital as % of Risk Weighted Assets		
Total capital as % of risk weighted assets	17.09%	16.72%
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	9.32%	9.40%
Legislated minimum	4.00%	4.00%

29. 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.

(Canadian $ thousands, except per share amounts)

29. GUARANTEES, COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

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 $46,651 (2019 – $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 2020**	As at October 31 2019
Original term to maturity of one year or less	**$ 4,260,687**	$ 3,537,663
Original term to maturity of more than one year	**16,364**	22,206
Total	**$ 4,277,051**	$ 3,559,869

Property and Equipment and Intangible Assets Expenditure Commitments	**As at October 31 2020**	As at October 31 2019
Total contractual amount	**$ 49**	$ –
Cost to date	**17**	–
Remaining commitment	**$ 32**	$ –

The Credit Union also has a callable unfunded capital commitment of $126 (2019 – $128) to a co-operative investment fund.

(Canadian $ thousands, except per share amounts)

29. GUARANTEES, COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

Contractual Obligations

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

	Property Operating Costs	Other Contractual Obligations	As at October 31 2020	As at October 31 2019
Within 1 year	$ 3,373	$ 9,388	$ 12,761	$ 22,799
Between 1 and 5 years	6,374	13,563	19,937	41,178
After 5 years	1,910	3,519	5,429	13,562
Total	$ 11,657	$ 26,470	$ 38,127	$ 77,539

As of October 31, 2020, the Credit Union is committed to leases that have been signed but have not yet commenced. The leased asset value of these contracts is $2,747 at the time of commencement. These contracts are not included in the leased assets or leased liabilities presented in the consolidated financial statements. The current year is based on IFRS 16 whereas the prior year is based on IAS 17. See Note 4 for more information on the adoption of IFRS 16.

Contingent Liabilities

There are various legal proceedings and actions that arise from the normal course of business and are pending at October 31, 2020. The aggregate contingent liability of these proceedings and actions are not considered material to these consolidated financial statements.

30. 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 and financial liabilities.

As at October 31, 2020	Note	Carrying Value	Fair Value	Fair Value Difference
Financial Instrument Assets				
Cash and cash equivalents	a	$ 188,954	$ 188,954	$ –
Interest bearing deposits with financial institutions	c,f	1,627,109	1,627,525	416
Assets at amortized cost	e	6	6	–
Assets at fair value through profit or loss	d	13,300	13,300	–
Members' loans	b,c,f	14,845,263	15,030,156	184,893
Other	a	8,128	8,128	–
Total financial instrument assets		16,682,760	16,868,069	185,309
Financial Instrument Liabilities				
Members' deposits	b,c	13,856,560	13,905,470	(48,910)
Liabilities at fair value through profit or loss	d	4,673	4,673	–
Borrowings	a	200,000	200,000	–
Securitization liabilities	c	1,148,433	1,190,374	(41,941)
Payables and other financial liabilities	a	222,289	222,289	–
Total financial instrument liabilities		$ 15,431,955	$ 15,522,806	$ (90,851)

(Canadian $ thousands, except per share amounts)

30. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

As at October 31, 2019	Note	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,f	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,f	14,541,959	14,570,135	28,176
Other	a	11,076	11,076	–
Total financial instrument assets		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	194,527	194,527	–
Total financial instrument liabilities		$ 14,678,832	$ 14,702,743	$ (23,911)

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

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

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

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

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

(f) Allowances use forward-looking information in the calculation of expected credit losses.

(Canadian $ thousands, except per share amounts)

30. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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, 2020	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative assets	$ –	$ 13,030	$ –	$ 13,030
Investment shares in entities	–	–	43	43
Shares in Concentra Trust	–	–	227	227
Financial assets held at fair value	$ –	$ 13,030	$ 270	$ 13,300
Member shares – Series E	–	(434)	–	(434)
Derivative liabilities	–	(4,673)	–	(4,673)
Financial liabilities held at fair value	$ –	$ (5,107)	$ –	$ (5,107)

Fair value measurements using Level 3 inputs	
Balance at October 31, 2019	$ 269
Purchases	1
Balance at October 31, 2020	$ 270

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

31. 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.

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

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.

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 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.

(Canadian $ thousands, except per share amounts)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

Since October 31, 2019, 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.

Before Tax Impact of:		2020		2019
1% increase in rates	**$**	**2,179**	$	500
1% decrease in rates	**$**	**(8,885)**	$	(2,651)

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, 2020, the Credit Union's net difference between assets and liabilities in foreign currencies was $1,581 (2019 – $(818)).

Liquidity Risk

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

Risk Measurement

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

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

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

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

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 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 2020, the Credit Union's liquidity as at October 31, 2020, 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

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 behavior 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.

(Canadian $ thousands, except per share amounts)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

As at October 31, 2020	**Non-Maturities**	**Less than 1 Year**	**1 – 3 Years**	**3 – 5 Years**	**Over 5 Years**	**Total**
Financial Assets						
Cash and cash equivalents	$ 188,954	$ –	$ –	$ –	$ –	$ 188,954
Investments	275	1,585,404	20,122	21,584	–	1,627,385
Members' loans	2,137,457	4,207,060	5,193,487	3,200,436	106,823	14,845,263
Accounts receivable	–	7,868	–	–	–	7,868
Total financial assets	$ 2,326,686	$ 5,800,332	$ 5,213,609	$ 3,222,020	$ 106,823	$ 16,669,470
Financial Liabilities						
Members' deposits	8,130,516	4,221,124	1,352,096	152,706	118	13,856,560
Trade payables and other liabilities	434	214,368	708	–	–	215,510
Borrowings	–	–	200,000	–	–	200,000
Securitization liabilities	–	365,180	560,367	218,740	4,146	1,148,433
Total financial liabilities	$ 8,130,950	$ 4,800,672	$ 2,113,171	$ 371,446	$ 4,264	$ 15,420,503
Net maturities	$ (5,804,264)	$ 999,660	$ 3,100,438	$ 2,850,574	$ 102,559	$ 1,248,967

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

(Canadian $ thousands, except per share amounts)

32. 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 15. Information on how the Credit Union manages interest rate risk is included in Note 31.

As at October 31, 2020	Floating Rate	0–3 Months	3–6 Months	6–12 Months	More Than 1 Year	Non Interest Sensitive	Total
Assets							
Cash and cash equivalents	$ 166,337	$ –	$ –	$ –	$ –	$ 22,617	$ 188,954
Effective yield (%)	*0.25%*	–	–	–	–	–	*0.22%*
Investment in associate	–	–	–	–	–	197,851	197,851
Investments	–	1,009,644	158,758	414,403	40,366	4,214	1,627,385
Effective yield (%)	–	*0.30%*	*0.52%*	*0.93%*	*2.05%*	–	*0.52%*
Members' loans	3,483,134	859,162	682,462	1,608,272	7,986,960	225,273	14,845,263
Effective yield (%)	*3.48%*	*3.20%*	*3.23%*	*3.29%*	*3.51%*	–	*3.40%*
Other assets	–	–	–	–	–	308,841	308,841
	3,649,471	1,868,806	841,220	2,022,675	8,027,326	758,796	17,168,294
Liabilities and Equity							
Members' deposits	5,961,624	1,078,733	1,129,279	1,947,467	2,564,807	1,174,650	13,856,560
Effective yield (%)	*0.19%*	*1.71%*	*2.07%*	*1.54%*	*1.08%*	–	*0.80%*
Other liabilities	–	–	–	–	–	310,100	310,100
Borrowings	–	200,000	–	–	–	–	200,000
Effective yield (%)	–	*0.97%*	–	–	–	–	*0.97%*
Securitization liabilities	–	78,768	85,428	201,141	785,255	(2,159)	1,148,433
Effective yield (%)	–	*2.19%*	*2.35%*	*2.26%*	*2.58%*	–	*2.49%*
Equity	–	–	–	–	–	1,653,201	1,653,201
	5,961,624	1,357,501	1,214,707	2,148,608	3,350,062	3,135,792	17,168,294
Off Statement of Financial Position							
Notional value of assets derivative financial instruments	–	800,000	200,000	–	850,000	–	1,850,000
Notional value of liabilities derivative financial instruments	(1,850,000)	–	–	–	–	–	(1,850,000)
Sub total	(1,850,000)	800,000	200,000	–	850,000	–	–
Net 2020 position	$ (4,162,153)	$ 1,311,305	$ (173,487)	$ (125,933)	$ 5,527,264	$ (2,376,996)	$ –

(Canadian $ thousands, except per share amounts)

32. INTEREST RATE SENSITIVITY (CONTINUED)

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%*
Investment 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)

33. 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 16 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 and Bonus	Benefits	Post Employment Benefits	2020
Chief Executive Officer (CEO)	**$ 1,112**	**$ 65**	**$ 225**	**$ 1,402**
Chief Financial Officer (CFO)	**475**	**32**	**27**	**534**
Chief Operating Officer (COO)	**449**	**29**	**27**	**505**
Chief Information Officer (CIO)	**476**	**31**	**27**	**534**
Chief Information & Payment Officer (CIPO) (1)	**190**	**12**	**11**	**213**
Chief Credit Officer (CCO)	**431**	**27**	**27**	**485**
Chief People & Corporate Services Officer (CPO)	**457**	**36**	**27**	**520**
Chief Marketing & Digital Banking Officer (CMO)	**437**	**29**	**27**	**493**
Chief Member Experience Officer (CMEO) (2)	**525**	**33**	**27**	**585**
Total	**$ 4,552**	**$ 294**	**$ 425**	**$ 5,271**

(1) The CIPO position is new as of June 8, 2020.

(2) In addition to the amounts shown, the CMEO is entitled to an early retirement package of $525K, as well as an additional amount based on Credit Union results, which will be calculated in the future and distributed over a two year period beginning 2021. The position is being eliminated effective April 2021.

	Salary and 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
Total	$ 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.

(Canadian $ thousands, except per share amounts)

33. RELATED PARTY DISCLOSURES (CONTINUED)

Directors' Compensation and Expenses		2020		2019
Compensation to directors	$	**691**	$	714
Expenses incurred by directors		**36**		120
Total	$	**727**	$	834

Compensation to directors ranged from $15 (2019 – $20) to $81 (2019 – $72) with an average of $49 (2019 – $55).

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 23). 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 2020		As at October 31 2019
Key management personnel	$	**2,860**	$	2,169
Board of directors		**4,515**		4,210
Other employees		**386,831**		377,018
Total	$	**394,206**	$	383,397

Members' Deposits		As at October 31 2020		As at October 31 2019
Key management personnel	$	**12,087**	$	10,862
Board of directors		**3,165**		2,709
Other employees		**175,663**		167,231
Total	$	**190,915**	$	180,802

34. COMPARATIVE FIGURES

As a result of the adoption of IFRS 16 Leases, lease liabilities classification on the consolidated statement of financial position has been reclassified from trade payables and other liabilities to lease liabilities.

A presentation adjustment on the allowance for loan losses reconciliation tables in Note 8 resulted in a reclassification between repayments and remeasurements in each category. A presentation adjustment has also been made to Note 5 moving loans commitments and guarantees balances from Stage 2 to Stage 1 and from medium to low risk in Note 7.

Derivatives classification on the consolidated statement of cash flows has been reclassified from investing activities to operating activities due to the nature of the underlying derivatives.

An adjustment has been made to the October 31, 2019 table in Note 7 Member Loans and in Note 9 Credit Quality of Members' Loans. In both notes, the commercial and agriculture amount of off balance sheet principal has been reduced by $46,463. There are no other statements or tables affected by this adjustment.

Adjustments have been made to the consolidated statement of cash flows to report tax recovery on dividend paid previously reported in financing activities to incomes taxes received and (paid), net in operating activities.

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