Management’s Discussion and Analysis
Consolidated Financial Statements

For the year ended October 31, 2022

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SERVUS CREDIT UNION LTD.
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For the year ended October 31, 2022

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Servus Credit Union Ltd.'s ('Servus's' or 'Servus Credit Union' or 'Credit Union') 2022 annual report consists of the Management's Discussion and Analysis and the Consolidated Financial Statements for the year ended October 31, 2022, 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 several 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

Servus has been a strong, stable and dependable banking institution in Alberta for over 80 years. In that time, Servus has grown to be the largest credit union in Alberta and the first province-wide credit union in Canada. We're proud of our roots, but even more proud of our personalized and exceptional service that we've provided to our members. With more than 2,100 dedicated employees, we serve over 380,000 members in 105 locations across 59 communities in Alberta.

2022 has been a transformational year for Servus where day-to-day operations are led by our Executive Leadership Team:

- Ian Burns, President & Chief Executive Officer
- Randy Allarie, Chief Risk Officer
- Michelle Belland, Chief Transformation Officer
- Ryan Gobolos, Chief Financial Officer
- Dion Linke, Chief Operating Officer
- Atul Varde, Chief Information & Payments Officer

Our Noble Purpose

Our noble purpose is "reimagining financial fitness". With members at the core, this noble purpose drives everything that we do. It is the key driver behind efforts to transform Servus Credit Union to ensure we are able to provide the products, services and platforms that members need today and into the future as the financial landscape changes around us.

Our noble purpose also ensures we are able to adapt and reimagine financial fitness for each individual member. This means members are in control of the decisions they make and we support them by providing advice, as well as products and services which make their lives easier. We are here to help our members reach their financial goals.

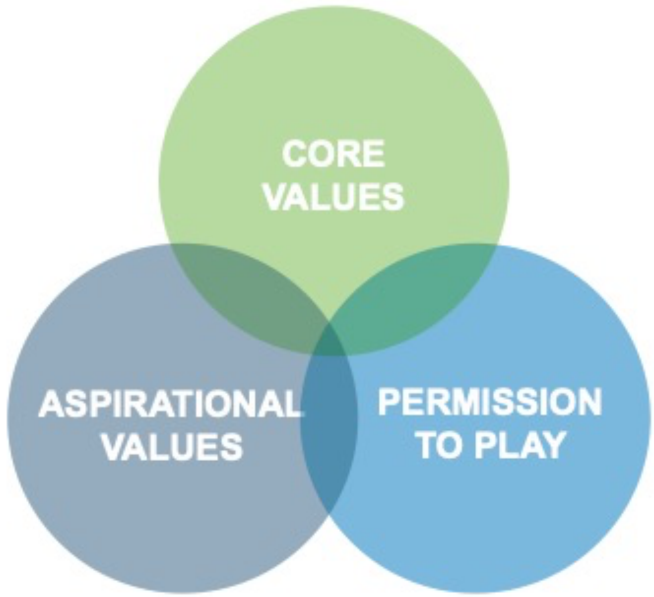
Our Values

We are a people-centric organization that prides itself in strong relationships and values. Our values guide our work every day. In 2022, as we embarked on a fundamental transformational journey, we reminded ourselves about the importance of our values by clearly articulating them to all our employees and ensuring that our values remain front and centre in every decision we make. We have three types of values:

Core Values – These are the values that impact every decision we make and reminds ourselves that we are a co-operative business which puts our members in the forefront while we encourage and support them on their path to improving their financial fitness.

Aspirational Values – These values empower our employees and encourage them to take calculated risks and to be smart, gutsy and driven.

Permission to Play – In every decision we make, we conduct ourselves and our work with integrity, honesty, and fairness. This is a value that we are unwilling to compromise on.



Transformational Growth

The financial industry is undergoing a fundamental evolution in response to changing consumer demands—rapid digitization, technology advances, the use of digital currencies, as well as the emergence of open banking in various parts of the world, which will soon include Canada.

For over 80 years, Servus has been there for its members. We pride ourselves in adapting to our member needs, which is why Servus recognized the need to evolve our credit union in order to stay competitive in today's market and deliver a best-in-class member experience — both today and into the future.

In response, Servus launched a major transformational journey in 2022 with an intent of preserving that which our members value about us today, while also responding to the changing landscape around us, through modernizing our ability to deliver cutting-edge products, services, tools and member experiences.

We reimagined what the future could look like and determined three transformational priorities:

Market-leading growth – expanding our service offering to more members and in doing so fortify our ability to continually reinvest in market-leading services.

Easy to do business with – ensuring it's easy for our members to bank with us while improving the ease of which our staff can provide great member service.

Fast-moving performance culture – shifting our culture to one that thrives within the disruption coming at us to continually evolve and innovate.

Driven by these priorities, we've had a laser-sharp focus on faster delivery of better service, continuous improvement and profitable growth. This spurred many bold changes in the organization including a new organizational structure, expansion in under-served parts of the province, such as Calgary, and improvements to our services and platforms. Some of the changes are already providing benefits. This includes enhanced lending practices ensuring rate competitiveness as well as capacity for funding larger business loans. Whereas, other changes are longer term plays, like an enhanced online and mobile banking platform slated for release in 2023.

Our transformation efforts required a concerted investment in 2022, resulting in a decrease to net income. At the same time, our financials show that we're on the right track, having achieved record asset growth of over $883.5 million in 2022, surpassing $18.3 billion in assets. Retained earnings reached $1.1 billion in 2022.

Market-Leading Growth

With the anticipated emergence of open banking in the coming years and member demand for a more agile digital banking experience, Servus was inspired to re-think its existing strategy and position itself for growth. In 2022, we re-examined our growth strategy and adjusted the ways in which we balance growth, risk and profitability as well as decision-making. Investments in key areas like data analytics and governance, digital, product, IS security, compliance and assurance will help guide the organization towards a more modern approach to banking and ensure that our members privacy and security are never compromised. In addition, a new head of banking position was created to enable an elevated banking experience.

By making significant changes and investments within the organization, we'll be able to keep pace in an open banking environment and meet the growing demands of the future.

Easy To Do Business With

Streamlining our existing systems and processes will create improved efficiencies for both our members and our employees. It's something we recognized needed to be done in order to compete in today's changing environment. Financial institutions need to be adaptable and provide product and services that are convenient for all types of members.

As such, this year, we identified specific critical actions that are important to our future success. These include tools and systems for both members and employees, simplified administration, streamlined processes, and focused improvements to key products and services.

Fast-Moving Performance Culture

In 2022, we made key shifts to our culture and organizational structure to enable our transformation efforts. We recognized that to compete in a fast-paced and quickly changing environment, we needed to re-examine what our performance culture could look like. We realized this would require a strong sense of trust, focus, empowerment and the ability to execute plans effectively. This also meant we had to have the right people in the right positions, which is why we examined every position in the organization to ensure our roles and the people in them were fit for purpose. We want to attract and retain the best talent now and into the future.

Social Impact

At Servus, our noble purpose also translates into our social impact. As with everything we do, members are always at the forefront of our efforts. We believe if we're successful in helping our members become more financially fit, they will be better at managing their family needs while contributing to stronger communities.

At Servus, we hold ourselves accountable by measuring the financial fitness of our members in comparison to Albertans overall.

Servus members continue to outpace the financial fitness of Albertans who do not bank with us. Our annual Financial Fitness score was 5.6% higher than the Alberta average, indicating that Servus's approach to advice is resonating with members. This score shifts from year to year based on the economy so Servus focuses on the difference between its score and the Average Alberta score.[1]

[1] The source of the data is our Annual Financial Fitness Survey. We administer the survey to our members and employees, and engage Angus Reid to access the AB Panel Members.

The table below highlights the financial fitness scores of Servus members compared with general Albertans over the past three years:

Overall Financial Fitness Scores	**2020**	**2021**	**2022**
Servus Credit Union Members	69.1	74.3	71.9
Alberta	68.8	69.6	66.3
Difference between Servus Credit Union and Albertans	0.3	4.7	5.6

We believe that helping our members become more financially fit is an important aspiration. During tough economic times, our role is to provide members with the knowledge, tools, and respectful advice necessary for them to feel in control of their finances, build resilience against further economic challenges, and pursue new opportunities when they arise. In other words, we want members to feel good about their money and we want to support them. Some of the ways that we're doing this, include:

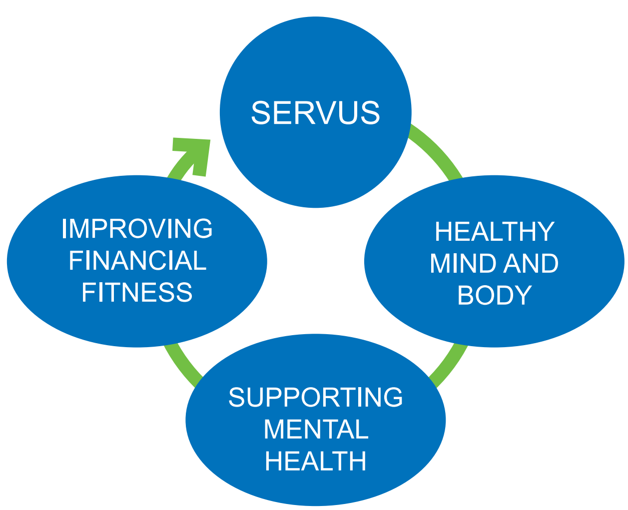
- Continuing our use of data and information security safeguards to protect personal information against loss or theft including a two-step authentication in online banking.
- Having regular financial fitness conversations with members to identify their financial goals and develop a tailored plan to help achieve them.
- Continuing the Profit Share® program to support our members including through providing access to their future profit share through Profit Share® Rewards Cash Advance.
- Increasing our employees' knowledge and awareness so they can provide tools and advice that enable members to make informed money management decisions.

Helping Our Communities

Investing in the communities in which we operate is a fundamental commitment as part of our cooperative values. 2022 was no exception. Servus contributed more than $2 million in sponsorships, donations and community initiatives this year, in addition to many of our employees contributed volunteer efforts to local causes.

Working with more than 400 organizations throughout Alberta, Servus continued to build strength and prosperity in our local communities. Our community engagement programs helped empower communities and, in turn, we also witnessed the benefit of more prosperous and financially fit communities.

To highlight a few of our community engagement initiatives in 2022, Servus established several large, long-term partnerships in three important areas:



Healthy Mind and Body

The physical fitness of our members and the ability to affordably access safe activities in our communities and neighbourhoods is important to us, which is why we established:

A new title partnership with Calgary Marathon to create the Servus Calgary Marathon. This partnership aligns with Servus's commitment to support our members in becoming physically, mentally, and financially fit.

A new presenting sponsorship for Open Farm Days in conjunction with the Alberta Association of Agricultural Societies. This is an important event for our rural members living and working in agricultural communities.

Supporting Mental Health

Individuals and families in our communities can be vulnerable to mental health issues. At Servus, we want to help those facing these difficult challenges. As such, we have partnered with the following organizations:

- Canadian Mental Health Association, Alberta Northwest Region, is an organization that Servus is proud to support through their, 'Coldest Night of the Year' event. This event generates awareness and funds to help those facing mental health challenges in the Grand Prairie, Alberta area.

Recognizing the critical need this year, with many households experiencing significant financial pressures, Servus also donated more than $110,000 to local food banks across the province.

Improving Financial Fitness

As an extension of the ways in which we strive to improve the financial fitness of our members, we also work to do so within the broader community. Some of our ongoing partnerships include:

- Becoming the presenting sponsor of Financial Literacy Month for Junior Achievement of Northern and Southern Alberta. This organization has deep roots in Alberta and helps to educate Alberta's youth about the importance of financial awareness and planning.
- Working with the Right at Home Society to host a Servus sponsored financial fitness seminar for volunteers and residents. This seminar helped attendees understand the importance of being financially fit.

Environment, Social & Governance+

As part of our transformation efforts, Servus is transitioning from a Corporate Social Responsibility (CSR) focus to a broader Environmental Social Governance (ESG+) framework and reporting. While often ESG focuses on three pillars, environment, social and governance; Servus also balances these pillars with a fourth pillar, economics.

ESG+ refers to measurable and comparable non-financial performance metrics and impacts in the areas of environment, social, and governance, in addition to our measurable financial performance. ESG+ includes sustainable, ethical, social and corporate governance issues, such as, managing our carbon footprint and ensuring there are systems in place for corporate accountability.

In 2015, CSR was the starting point for Servus to commit to environmental and social accountability. However, as ESG+ comes to the forefront, Servus has decided to take this accountability one step further and align our ESG+ goals with our overall business strategy and financial performance. Balancing ESG+ with our existing economic and financial goals, as set out in our strategy, will help us identify ESG+ opportunities and risks that will augment our strategic and financial success. Our ESG+ approach will allow us to develop quantifiable goals in an integrated manner to continue to balance our strategic priorities while monitoring the inter-relationship with our ESG+ goals.

Environmental Reporting

Servus has been collecting various environmental reporting as part of its prior CSR third-party database system. This reporting will continue in the ESG+ framework with flexibility to adjust environmental reporting and goals as industry practices evolve around environmental considerations, such as climate change.

Social Reporting

Social reporting includes everything from 2SLGBTQ+ equality, diversity, equity, inclusion and belonging at all levels in the organization and within our hiring practices. Servus has long prioritized social aspects into our operations, which can be seen in our community councils, employee groups and community donations. This work will be translated to similar ESG+ standards in 2023.

Governance Reporting

From the board of directors to our front-line branches, we have strong governance practices and continually work to improve upon them. To this end, Servus has compliance management processes, a code of conduct, whistleblower processes, and a board competencies/attributes matrix, as some of the key aspects of good governance. We believe these robust practices will benefit our members, employees and other stakeholders and will help us become an industry leader in Canada.

Economics Reporting

In the context of ESG+, economics reporting is focused on the efficient use of resources to improve profitability and achieve economic growth.

Recognizing our Credit Union

- Our work has not gone unnoticed. In 2022, Servus was honoured to receive several awards, reflective of the efforts of our employees to provide exemplary member service. During 2022, Servus:
- Requalified as a member of the Platinum Club of Canada's Best Managed Companies for the 19th year.
- Was named the best bank in Canada on Forbes List of World's Best Banks. This ranking is based on survey results which asked customers (members) for their opinions on their banking relationships. The rankings were also evaluated on criteria such as general satisfaction, trust, fees, digital services and financial advice.
- Was among a cohort of Canadian credit unions that received the overall 2022 Customer Service Excellence Award for all financial institutions in the retail banking sector. It is one of Ipsos' Best Banking Awards, an annual program that recognizes Canadian financial institutions for excellence in customer experience.
- Placed second on the Surviscor Service Level Assessment review list of 32 Canadian financial institutions. This award was based on an index which measured Canadian banking firms for their customer service levels through public customer contact forms and email.
- Was recognized by Apex Training Magazine and earned the ranking of #78 in learning organizations in North America.

2022 Economic Review

Transforming the way Servus operates required not only an internal look at the way we conduct business, but also an examination of the external factors that can play a large part in our ability to reach our strategic goals.

In 2022, the global economy experienced a turbulent year as inflation and the ongoing Ukraine-Russia conflict heightened risk sentiments across economies. We witnessed record breaking inflation numbers that had not been seen in decades. This was primarily due to supply chain disruptions, significant excess demand, and soaring commodity prices which were jolted by Central Banks swiftly raising policy rates to bring inflation under control.

With the increase in monetary policy rates, global government bond yields climbed quickly in tandem and led to a re-pricing of global equities and other risky assets. Banks' lending rates also rose in addition to a widening of corporate spreads. With leading indicators showing signs of an economic slowdown around the world, the International Monetary Fund (IMF) is now projecting global growth to slow down to 3.2% in 2022 and 2.7% in 2023. This is the weakest growth profile since 2001 except for the global financial crisis and the acute phase of the COVID-19 pandemic.[2]

Economic activity in the United States is slowly expanding, following contraction over the first half of the year. Unemployment rates were down to 3.7% in October 2022 from 4.6% as of October 2021, with job gains in 2022 (at time of writing) totaling 4.06 million.[3]

However, inflation in the United States, as in many countries, remains stubbornly high, having reached one of the highest levels in about 40 years, coming in at 9.1% in June. The decline in real disposable income is also hurting household budgets who are experiencing increased cost of living due to higher gasoline and food prices. To prevent inflation from becoming entrenched, the Federal Reserve has increased the federal funds target rate by 3.75 percentage points since the start of 2022, though higher interest rates are currently taking a toll on consumer and business spending. Overall, Growth Domestic Product (GDP) growth in the United States for 2022 is now expected to slow to 1.6% from 5.7% in 2021.

In Canada, growth was strong in the first half of 2022 as high commodity prices and further easing of public health restrictions boosted economic activity. A further gain of 100,000 jobs in October 2022 drove unemployment rates down to 5.2% and there is strong evidence of substantial remaining excess demand in the Canadian economy[4]. In the bid to cool down the economy and lower inflation, which currently sits at 6.9% as of October 2022, the Central Bank started ramping up its policy rate in March and has increased by 3.50 percentage points so far.

The rate hikes with other quantitative tightening measures adopted by the Bank of Canada (BoC) have led to a rapid tightening in domestic financial conditions. Economic growth in Canada is now slowing, which is allowing supply to catch up with demand. Tight financial conditions have also led to the cooling of the housing market, as housing activity has fallen sharply from the exceptional peak recorded earlier this year with borrowing costs rising sharply in tandem with the Bank of Canada's rate hikes. Households renewing an existing mortgage are facing a larger increase in borrowing rates than has been experienced during any tightening cycle over the past 30 years.

In addition, the slowdown in economic activity abroad, particularly the United States, has begun to weigh on Canadian exports contributing to the drag on GDP growth. It is now expected that Canada's GDP for 2022 will drop to 3.25% from 4.1% recorded in 2021[5].

Meanwhile, the Alberta economy continued its resurgence in 2022 as the province's 2021-22 results showed a $3.9 billion surplus. The significant turnaround in fortunes was mainly due to higher commodity prices, with WTI price averaging US$77.03 per barrel as compared to budgeted estimate of $34.71 per barrel.

The province also benefited from higher corporate and personal income taxes as the economy recovered strongly after easing pandemic restrictions, with the October 2022 unemployment rate falling to 5.2% as compared to 7.8% in October 2021. Though, like the rest of the country, provincial GDP for 2022 is also expected to slow down to 4.9 percent in 2022 after growing an estimated 5.1 percent in 2021 as the province is also experiencing softer growth in real consumer spending and residential investment.[6]

[2] World Economic Outlook October 2022 – https://www.imf.org/en/Publications/WEO/Issues/2022/10/11/world-economic-outlook-obector-2022
[3] Bureau of Labour and Statistics – https://data.bls.gov/pdq/SurveyOutputServlet
[4] Monetary Policy Report – https://www.bankofcanada.ca/2022/10/mpr-2022-10-26/
[5] World Economic Outlook October 2022 – https://www.imf.org/en/Publications/WEO/Issues/2022/10/11/world-economic-outlook-october-2022
[6] 2021 – 2022 Final Results Year End Report – https://open.alberta.ca/dataset/9c81a5a7-cdf1-49ad-a923-d1ecb42944e4/resource/bdda9ccd-6900-41e2-a70b-2b35a5c99590/download/2021-22-final-results-year-end-report.pdf

2023 Economic Outlook

Looking ahead to 2023, global growth is expected to slow in 2023 to 2.7%, as economies contend with a high-rate interest environment, stubbornly high inflation and geopolitical tensions. With the Ukraine – Russia conflict expected to drag long into the winter, there will be anticipated pressure on commodity prices as European Union countries are expected to scramble for non-Russian gas, while the Black Sea Grain Deal, if scuttled, could send food prices higher.

With consumer inflation remaining high in major economies, major central banks must make a difficult decision on how far they are willing to raise interest rates bearing in mind a deteriorating growth outlook, subdued consumer and investor sentiments and a still-tight labor market. If central banks over-tighten, they may send economies into a recession. On the other hand, there is a risk that the fight against inflation may lose momentum if they choose to under-tighten in the bid to recreate a soft landing for their economies.

The expectation is that growth in the United States will decline to 1.0% in 2023 on the back of tight financial conditions and anticipation the Federal Reserve will still have to increase rates further going into 2023, albeit at a much smaller pace to curtail inflation. It is expected that higher interest rates will slow consumer spending, especially on residential investment while the equity markets could face more headwinds if rates trend higher, coupled with heightened geopolitical risks.

Also, the Biden administration will likely face more hurdles in passing major spending bills with control of congress now split between the Democrats, who holds the Senate, and the Republicans, who control the House of Representatives. Signals from the Republican led house suggests an intent to curb fiscal spending which may thus impact fiscal measures that could boost economic growth.

Annual economic activity growth in Canada is forecast to be around 1.3% for 2023 with potential output growth being marked down due to labor market mismatch and tighter financial conditions. Consumer investment, especially in the housing sector, is expected to be subdued because of higher borrowing rates, while house prices, which cooled significantly in 2022, are expected to level out in 2023.

Business investment growth is projected to slow to 1.5% in 2023 from 6.75% in 2022. While capacity constraints remain significant, growth in business investment spending is also expected to be impacted by financing costs and softening demand, especially foreign demand in 2023.[7]

Inflation will remain the hot topic for 2023, despite the belief that it will fall within its 1% – 3% target range by the end of 2023. There is a risk that inflation could remain higher for longer than anticipated because of supply chain disruptions to commodity goods (oil, natural gas, and energy products) due to the ongoing Ukraine- Russia war, or if consumer spending increases due to households tapping into their elevated level of savings, as well as if wage-growth becomes more pronounced than projected.

WTI is forecast to average out at about $89 per barrel in 2023 while the CAD/USD exchange rate is projected to hover around 0.72- 0.79 range level for the year.[8]

Reviewing Alberta's outlook for 2023, it is expected that GDP will drop to 3.2% by Q1, 2023, while the unemployment rate is expected to rise to 5.5% by end of same period. Downside risks include higher inflation and interest rates, while weaker global demand could result in a sharper correction to oil prices. However, on the upside, growth in Alberta could be stronger if inflation and interest rate increases slow or cease and if oil prices trend higher if OPEC+ or U.S. production fails to meet demand[9].

2022 Financial Highlights

As we plan for 2023 and beyond, Servus is proud of our financial performance in 2022 which resulted in retained earnings exceeding $1.1 billion. Our strong capital position enabled us to grow our assets by almost $1.2 billion

[7] Monetary Policy Report 2022 – https://www.bankofcanada.ca/2022/10/mpr-2022-10-26/
[8] Short Term Energy Outlook US EIA – https://www.eia.gov/outlooks/steo/data.php?type=figures
[9] Bloomberg Projections

since 2020, with the majority of that growth coming from an increase of $883.5 million in 2022. This is due, in part, to a more assertive loan growth approach.

Servus's assets now exceed $18.3 billion, which was achieved while we supported members through the impacts of the pandemic and undertaking significant organizational change. We've also made considerable changes to how we work to ensure that we will grow and thrive in an increasingly complex and dynamic financial services market.

Financial Position

Servus's net interest income and other income increased to $565.6 million this year due to strong asset growth. To enable this growth, we made critical organizational and technological changes to ensure that we can meet changing consumer demands. These one-time costs contributed to an overall increase of 13.8% in operating expenses and reduced operating income to $135.7 million.

Our employees unwavering commitment to member's financial fitness resulted in loan growth of over $1.0 billion and member deposit growth of $0.9 billion. Members are experiencing a tightening in household income primarily due to a high inflation and high interest rate environment. At Servus, we're supporting members in helping them optimize their deposits and provide funding to achieve their financial goals during these uncertain times.

Our performance in 2022 also led to more than $60 million in Profit Share® paid to members. This was an increase of more than $5 million from 2021. Of the over $60 million shared in 2022, over $32 million was paid to members in Profit Share® Rewards Cash. Servus also returned over $28 million worth of dividends in the form of shares.

Regulatory Capital Performance and Requirements

	2022	2021	Internal Policy Requirements	Minimum Supervisory Requirements
Capital as a % of total assets	9.6%	9.8%	7.5%	4.0%
Retained earnings to assets	6.0%	6.0%	4.0%	N/A
Capital as a % of risk weighted assets	16.4%	17.4%	13.5%	11.5%

Margin

This year, our margin increased at a rate consistent with loan and deposit growth. We experienced a reduction in other interest income as we recognized unrealized losses on interest rate swaps. These swaps were put in place early in the pandemic to protect against unprecedented potential for further drops in interest rates. The interest rate environment has changed substantially since that time with the Bank of Canada implementing large, frequent interest rate hikes to stabilize inflation.

Other Income

Other income grew by $5.3 million due to a fair value adjustment on investments, increased credit card revenue, increased service charges, and increased wealth revenue.

Equitable Bank has acquired Concentra Bank and through this acquisition we have adjusted the fair market value of our investment in Concentra Bank to our estimated proceeds from the acquisition.

Our members increased their credit card usage this year as restrictions were lifted and the economy recovered from the pandemic. We work with our members to encourage them to use the credit card, as a tool to assist with monitoring and achieving their spending goals, while also receiving loyalty rewards and Profit Share® Rewards cash.

Service charges increased as members returned to pre pandemic spending behavior. Debit Mastercard usage has also increased as members utilize this secure form of payment using funds from their deposit accounts. Additionally, Servus is now charging for paper statements on all accounts as we continue to encourage members to leverage online banking as it provides immediate access to information, additional security, and has positive environmental impacts.

Wealth revenues increased by 13.1% as our wealth managers focused on supporting members in achieving their long-term goals in this high interest rate environment.

The increases in other income were, in part, offset by decreases in pre-payment fees and insurance revenue.

As interest rates rose throughout 2022, we saw a reduction in pre-payment fees as members were refinancing mortgages less frequently.

Insurance revenue was lower this year due to increased member insurance claims. Although these claims decreased income, it demonstrated our commitment to supporting members' financial needs during challenging personal times. Our employees are committed to offering insurance coverage options so that members can ensure adequate insurance coverage for unexpected life events.

Provision for Credit Losses

The provision for credit losses started to normalize this year and shifted to an expense at the end of the year as opposed to the recovery that was experienced last year. The Alberta economy is stronger than pre-pandemic, as evidenced by low unemployment and high commodity prices. The Consumer Price Index increased 6% from prior year as a result of high inflation throughout the province and country.

Member household income is starting to show compression from the high inflation and interest rate hikes; however, we are not yet seeing this impact on expected credit losses. The loan portfolio remains strong with low delinquency and lower than average write offs in all loan categories. Members were able to increase savings through the pandemic and are now using those savings to help with the compressed household income. We expect future increases in delinquency and write-offs and have factored this into the value of expected credit loss.

The provision has also increased this year due to the significant loan growth. This is evident in expected credit loss as well as the provision.

Operating Expenses

Personnel Costs

This year, we made critical changes to ensure the organization could deliver a best-in-class member experience. We reviewed our Executive Leadership Team and resized and re-aligned roles so that we could improve collaboration and the speed of decision-making. We also created a new Chief Transformation Officer role, with responsibilities in the area of People & Culture, Digital Banking, Strategy, Marketing, and Communications. We also shifted our Chief Credit Officer role to Chief Risk Officer which better reflected the increasing complexity of a growing credit union in a changing financial institutional environment. And, we added in-house legal counsel, a head of banking position, and other leadership roles in the areas of Strategy & Transformation, Data Analytics, Data Governance and Technology.

We also made the very difficult decision to release 180 employees. These decisions were not made lightly and were not the result of cost-cutting measures. Instead, this was about aligning the right people with the right skillsets to reach our future goals. After making these changes, we shifted our focus to bring in new employees to fill vacancies and bring in new skillsets needed to fuel our transformation.

All of these changes resulted in a one-time increase relating to severance and recruiting costs. We also were able to share our success with employees through increased incentive pay, commissions, and employee recognition events.

General Costs

In 2022, we invested in new digital tools and technology for employees and members to ensure that we're innovating to deliver better banking solutions. This investment has resulted in increased professional services and computer related costs.

Significant technology and strategic projects include:

- Reimagining payment channels to ensure that members' changing payment needs are addressed now and in the future.
- Focusing on foundational work to ensure online and mobile platforms support members with their varying banking requirements.
- Enhancing credit card products and services to meet members' ever-changing needs.
- Reducing time required for businesses and individuals to set up an account through new technology and processes.
- Improving data structures to provide employees with the information they need as they help reimagine financial fitness.
- Deploying new hardware to all staff to ensure that they have consistent connectivity when working both onsite and remotely.

We also saw an increase in credit card service costs, as our members increased their credit card utilization this year. As travel restrictions were lifted, members redeemed a higher amount of Circle Rewards® loyalty points, causing an increase to credit card expenses.

2022 Balanced Scorecard Results

Servus uses a balanced scorecard to measure the success of its strategic plans. The FY22 results include a number of extraordinary items related to transformation costs and derivative income that were not included in the target setting process. After adjusting for these items, most balanced scorecard metrics were met.

Objective	Measure	FY22 Target	FY22 Results	FY21 Results
Increase member financial fitness	Average financial fitness score of members	71.0%	71.9%	74.3%
Members set and achieve financial goals	Unique members with new goals (net new annual)	24,500	27,705	21,056
Positive Leadership Climate	Leadership Climate Index	79.0%	77.0%	79.0%
Financial Growth	Operating Income[1]	150.7 million	135.7 million	179.2 million
Reduced dependency on Interest based income	Other Income as % of Average Assets[1]	0.759%	0.824%	0.806%
Leveraging Assets Profitability	Return on Assets (ROA)[1]	0.856%	0.765%	1.035%
Business Process Improvements for Effectiveness and Efficiency	Operating Efficiency Ratio[1, 2]	69.333%	74.556%	69.101%
Business Process Improvements for Effectiveness and Efficiency	Operating Expenses as a % of Average Assets[1]	2.218%	2.376%	2.140%

[1] Metrics are calculated before patronage and taxes.
[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.

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

Member Experience

With our members' experience always in mind, our noble purpose plays a significant role in shaping our members' financial fitness and providing exceptional member service. Our decisions reflect the best interests of our members, communities, employees and our organization.

Employee Experience

At Servus, we provide a positive, safe and rewarding work environment. We invest in our employees by engaging, developing and advancing them. We also instill a strong leadership culture that allows Servus to be broadly recognized as an exceptional employer by our employees, members and our communities.

Financial Performance

As a member-owned financial institution, we always 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, automating where it makes business sense and eliminating activities that cost more than the value they bring to members, employees and the organization.

Setting The Direction: 2023 – 2025 Strategic Plan

Canada's financial services industry is undergoing considerable change, and yet, Servus remains committed to offering its members a more positive experience than anyone else. This includes providing cooperative financial services, which are delivered by a strong, stable and purpose-driven organization.

At Servus, our efforts are propelled by our rolling three-year Strategic Business Plan which currently focuses on achieving three transformational priorities: Market Leading Growth, Easy to do Business With, and Fast-Moving Performance Culture.

More specifically, between 2023 and 2025, we'll focus on:

- areas of profitable growth
- increasing our speed of execution and of bringing new services to market
- continuously improving our efficiency while making necessary strategic investments

Ultimately, these areas will enable Servus to continually re-invest in the tools, products and services we offer to our members, enabling a positive member experience now and into the future.

To increase the financial fitness of our members, Servus will continue to have conversations with them to discover their needs and support them in setting and achieving their goals. The focus will be on providing new products, services and tools that are unique and promote the financial fitness of members, their businesses, and the communities they serve.

We will also continue important foundational work with:

- Channel modernization – transforming our banking platforms and channels to position Servus to adopt emerging technologies more quickly and nimbly, enabling us to remain competitive by providing a high-level of service to our members.
- Payment modernization – providing safe, fast, reliable and seamless money movement with improved information about payment transactions.

Both of these areas are critical to achieving our strategic outcome and uncovering member needs and supporting them in setting and achieving their goals.

Corporate Governance

At Servus, we embrace the credit union principle of democratic ownership through our board of directors. The Servus Credit Union's board of directors represents members, 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. Our board of directors approves the strategic direction of the organization and puts in place the controls necessary for the credit union to continue its success. This year, the board held a total of 33 board and committee meetings. The board places great importance on attendance at board and committee meetings and specifically, the Board's Code of Conduct stipulates that directors shall not fail to attend two meetings, in an electoral year, without the due consideration and approval of the Chair of the Board of Directors. As such, attendance at the board and committee meetings remains high.

Board of Directors

Further information on each Director can be found at www.servus.ca.

Name	Board Attendance (9 meetings)	Number of Years on Servus's Board (as of 2023 AGM)	Professional Designations
John Lamb *Chair of Board of Directors* *Ex-officio member of all committees*	9	10	ICD.D, CCD, CUDA
Danielle Ghai *Vice Chair of Board of Directors* *Chair of Governance & HR*	9	5	B.A. Hon (English), LLB, ICD.D, CCD
Kelso Brennan *(Elected AGM 2022)*	6/6	1	Computer Engineering Technology Diploma EMBA, CCD, CUDA (level A)
Doug Bristow *Chair of Audit & Finance*	9	7	B.Comm, CPA, CA, ICD.D, CUDA (level A, level B underway)
Amy Corrigan *Vice Chair of Governance & HR*	9	13	ICD.D, CUDA (levels A & C, B underway)
Perry Dooley	9	13	B.Mgt, ICD.D, CCD (levels 1 & 2)
Shawn Eltom *Chair of Nominating Committee*	9	4	CUDA (level A; B & C underway)
Iris Evans *(Retired at 2022 AGM)*	3/3	n/a	R.N., ICD.D
Amber Haworth *Vice Chair of Enterprise Risk Management*	8	2	B.A., MBA (Masters in Finance), ICD.D, GCB.D, FSA (underway)
Jonathon Holt	9	12	B.A., ICD.D, ACCUD
Darcy Mykytyshyn *Vice Chair of Audit & Finance*	9	11	B.Comm, ICD.D, ACCUD, CCD, CUDA, FCUIC
Matthew Protti *Chair of Enterprise Risk Management*	9	5	B.A. (Economics), MBA (Finance), ICD.D
Omar Yaqub *Vice Chair of Nominating Committee*	9	2	BCompSC, MBA, Doctorate of Sacred Letters (honorary)

ICD.D – Institute of Corporate Directors Designation
ACCUD – Accredited Canadian Credit Union Director (once CUDA Levels, A, B and C are completed)
CCD – Certified Credit Union Director
CUDA – Credit Union Director Achievement (Levels A, B and C)
GCB.D – Global ESG Competent Board Designation
FSA – Fundamentals of Sustainability Accounting Credentials
FCUIC – Fellow of the Credit Union Institute of Canada Designation

Board Mandate

The board of directors ensures that Servus creates and maintains value for stakeholders and serves the needs of the members and their communities. The board sets the credit union's strategic direction, formulates and monitors policies, evaluates organizational performance and ensures 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 bylaws. 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.

This year, the board appointed three directors (Perry Dooley, Matthew Protti, and Doug Bristow) and two members of Senior Management (Michelle Belland and Randy Allarie) to the board of directors with the CUCA. The board also hires and supervises the President & Chief Executive Officer (CEO) and the VP of Internal Audit.

Board Structure

The board of directors is made up of 12 Servus members and has established committees to help govern Servus effectively and to better manage risk. The board holds an Organizational Meeting in March, following the AGM (which is part-way through the fiscal year) to elect the board and committee chairs and vice chairs and to appoint each Director to the committees with most directors participating on at least two committees. The four board committees for 2022 are:

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. This committee met seven times.

Enterprise Risk Management Committee

Oversees the identification, understanding and management of risks that may impact Servus. This committee met four times.

Governance & Human Resources Committee

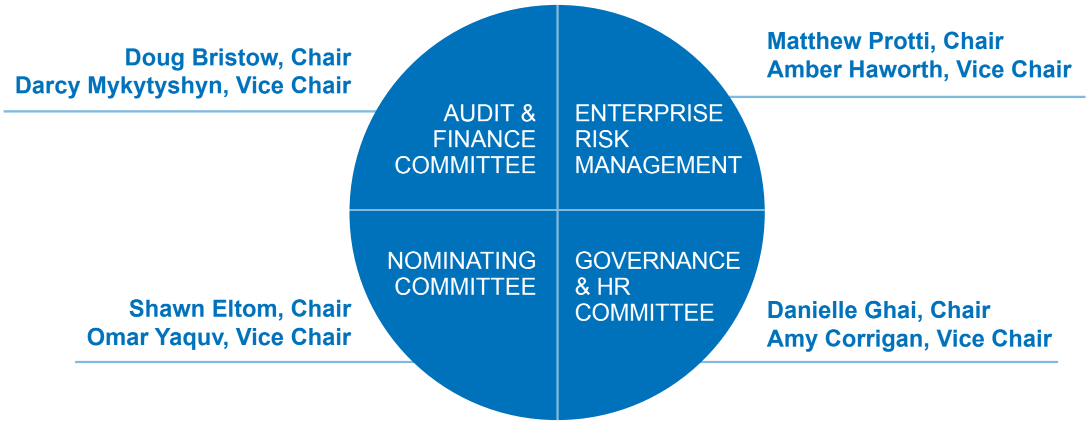
Establishes and maintains effective governance guidelines, ensures the performance and succession of the CEO, and ensures compliance with governance policies and Servus bylaws. This committee met eight times.

Nominating Committee

Administers the board election process for the full board of directors. The 2022 Nominating Committee met twice in November 2021. The 2023 Nominating Committee met three times and conducted two days of candidate interviews in November 2022.

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



Competencies & Attributes

The Board utilizes a competencies and attributes matrix to assess and ensure the board has the necessary skills and diverse perspectives to fulfill its mandate. The board also uses this information to assist directors with individual development plans as well as board and individual director performance feedback.

In relation to diversity attributes, the board currently identifies as follows:

Gender	Number of Directors
Male	9
Female	3
Other	0

Attribute	Number of Directors
Visible Minority	1
Disability	2
Indigenous	0

Age	Number of Directors
<40 years	1
41 – 50 years	7
51 – 60 years	3
61+ years	1
Total Average Age	48.33

Tenure on Board	Number of Directors
< 4 years	4
5 – 8 years	3
9 – 12 years	2
12+ years	3
Total Average Years	7.08

Orientation and Education

New Servus board directors must complete an orientation session within two months of their election and are encouraged to complete both a Policy Governance and Credit Union Director Accreditation course during their first year in office.

These and other learning opportunities enable directors on the board to further develop their knowledge and skills and, ultimately, enhance their performance on the board.

Ethical Conduct

The board is committed to ethical, professional and lawful conduct. Directors work to ensure 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 conflicts or perceived conflicts of interest immediately upon becoming aware of them. The Board adheres to a Code of Conduct, which is regularly reviewed.

Nomination

The nomination process includes holding an annual election to fill vacancies on the board. Successful candidates serve a four-year term. At the end of their term, directors may run for re-election. There is no limit on the number of terms a director may serve.

Director Remuneration

Servus provides each member of the board with an honorarium for their activities during 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.

Name	Total Renumeration: Honorarium + per diem (includes CPP)
John Lamb *Chair of Board of Directors, Ex-officio member of all committees*	$84,024
Danielle Ghai *Vice Chair of Board of Directors , Chair of Governance & HR*	$73,402
Kelso Brennan *(Elected AGM 2022)*	$39,456
Doug Bristow *Chair of Audit & Finance*	$51,905
Amy Corrigan *Vice Chair of Governance & HR*	$59,924
Perry Dooley	$60,472
Shawn Eltom *Chair of Nominating Committee*	$60,767
Iris Evans *(Retired at 2022 AGM)*	$14,350
Amber Haworth *Vice Chair of Enterprise Risk Management*	$50,229
Jonathon Holt	$57,369
Darcy Mykytyshyn *Vice Chair of Audit & Finance*	$54,028
Matthew Protti *Chair of Enterprise Risk Management*	$53,236
Omar Yaqub *Vice Chair of Nominating Committee*	$54,612

Director remuneration and attendance November 1, 2021 to October 31, 2022.

Performance Evaluation

Every year, board members are evaluated to assess their effectiveness and to identify opportunities for improvement at the board and individual director levels. The board chair and each committee chair are provided additional feedback, which assesses their overall performance and areas of improvement. The board also assesses the CEO's performance each year by reviewing his or her results against the Balanced Scorecard targets as well as the overall performance of Servus.

Risk Management

At Servus, we have a risk management structure that enables us 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 2022 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 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 members.

Servus believes 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 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 Chief Risk Officer. Three management committees: the Asset Liability Committee, the Expected Credit Loss 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.

Board of Directors Oversight		
Enterprise Risk Management Committee	Governance and HR Committee	Audit and Finance Committee

President and Chief Executive Officer		
Asset Liability Committee (ALCO)	Expected Credit Loss Committee	Management Risk Committee

Executive Leadership Team							
Strategic Risk	Competitive Risk	Operational Risk	Information Technology Risk	Credit Risk	Liquidity Risk	Interest Rate Risk	Regulatory and Compliance Risk
Emerging Risks							

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. At Servus, we proactively elevate material risk issues to senior management and the board. This helps us find a better balance between loss prevention, risk mitigation efforts and entrepreneurial risk-taking.

Our 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

Servus operates in a legislative and regulatory environment that ensures member deposits are guaranteed by our regulator, CUDGC. To that end, CUDGC sets various standards that Servus's internal policies, processes and guidelines adhere to, such as:

Policies, Strategies and Limits

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

Guidelines

Guidelines are the directives provided to implement the policies. Generally speaking, 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

We monitor our 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.

<table>
<tr><td>Policies, Strategies and Limits</td><td>Guidelines</td><td>Processes and Standards</td><td>Measurement and Reporting</td></tr>
<tr><td colspan="4">Practices Legislative Environment</td></tr>
<tr><td colspan="4">CUDGC Standards of Sound Business and Financial Practices</td></tr>
</table>

Figure 2: Servus Credit Union's Risk Management Framework

Types of Risk

We group our major risks into nine categories:

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.

We are reliant on IT for processing large volumes of transactions and storing large amounts of data. Despite a strong dedication to confronting cyber security, we 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 our ability to conduct regular credit union operations. We maintain 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.

Liquidity Risk

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

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 due to changes in market prices related to interest rates, foreign exchange rates, equity or commodity prices and 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.

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.

We manage 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, we manage this risk through well-trained and experienced lenders, clearly documented decision-making authority and approval processes that include operational oversight from the Expected Credit Loss Committee.

Competitive Risk

Competitive risk is the likelihood and impact that competitive forces prevent growth, stifle revenues or prevent us from achieving our 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. We manage these risks through regular market assessments, emerging risk reviews and strategic planning.

Another form of competitive risk is our reputational risk, which is 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.

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.

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.

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. We manage this risk through our 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.

Emerging Risks

At Servus, we monitor and report 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 our 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, 2022

SERVUS CREDIT UNION LTD.
Consolidated Financial Statements

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. (Servus or 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. KPMG 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:

Ian Burns, President and Chief Executive Officer

Ryan Gobolos, Chief Financial Officer

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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 "Entity"), which comprise:

- the consolidated statement of financial position as at October 31, 2022;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- notes to the consolidated financial statements, including a summary of significant accounting

policies (hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at October 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our auditor's report.

We are independent of the Entity 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. Other information comprises the information, other than the financial statements and the auditor’s report thereon, included in the Management’s Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not and will 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 and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, other than the financial statements and the auditor’s report thereon, included in Management’s Discussion and Analysis document as at 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 the 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 International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), 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 Entity’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 Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity’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 generally accepted auditing standards 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 the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, 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 Entity'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 Entity'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 Entity 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.

- 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity 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.

KPMG LLP

Chartered Professional Accountants

Edmonton, Canada

January 19, 2023

SERVUS CREDIT UNION LTD.
Consolidated Statement of Financial Position
(Canadian $ thousands)

	Notes		**October 31 2022**		October 31 2021
Assets					
Cash and cash equivalents	5	**$**	**80,810**	$	603,208
Investments	6		**1,398,015**		1,036,401
Members' loans	7,9		**16,344,134**		15,314,479
Income taxes receivable			**8,840**		-
Assets held for sale	10		**2,201**		3,099
Other assets	11		**36,112**		33,689
Property and equipment	12		**135,087**		134,625
Leased assets	13		**65,638**		56,506
Investment property	14		**5,697**		5,908
Derivative financial assets	15		**8,792**		9,507
Investment in associate	16		**199,623**		199,886
Intangible assets	17		**53,511**		57,644
Total assets			**18,338,460**		17,454,952
Liabilities					
Borrowings	19		**200,000**		200,000
Securitization liabilities	20		**690,874**		766,784
Members' deposits	21		**15,265,464**		14,380,795
Trade payables and other liabilities	22		**228,865**		228,289
Lease liabilities	13		**74,013**		62,373
Income taxes payable			**-**		4,958
Allowance for off balance sheet credit instruments	7,8		**4,602**		5,578
Derivative financial liabilities	15		**48,596**		25,567
Investment shares	24		**443**		430
Defined benefit plans	23		**4,313**		5,516
Deferred income tax liabilities	18		**7,107**		10,580
Total liabilities			**16,524,277**		15,690,870
Equity					
Share capital	24		**701,275**		702,690
Retained earnings			**1,106,390**		1,050,939
Accumulated other comprehensive income			**6,518**		10,453
Total equity			**1,814,183**		1,764,082
Total liabilities and equity		**$**	**18,338,460**	$	17,454,952

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)

	Notes		Year ended October 31 2022		Year ended October 31 2021
Interest income					
Members' loans		**$**	**566,083**	$	516,198
Investments, including derivatives	25		**(8,112)**		(8,809)
Total interest income			**557,971**		507,389
Interest expense					
Members' deposits			**118,193**		83,973
Other interest expense	26		**20,433**		26,855
Total interest expense			**138,626**		110,828
Net interest income			**419,345**		396,561
Other income	27		**145,208**		139,946
Share of profits (losses) from associate	16		**1,036**		(347)
Net interest income and other income			**565,589**		536,160
Provision for (recovery of) credit losses	8		**8,165**		(13,563)
Net interest income and other income after provision for (recovery of) credit losses			**557,424**		549,723
Operating expenses					
Personnel			**248,117**		219,955
General			**110,266**		88,534
Occupancy			**17,395**		16,876
Member security			**10,546**		9,820
Depreciation	12,13,14		**18,373**		18,076
Organization			**5,156**		4,707
Impairment of assets	10,12,17		**631**		680
Amortization	17		**11,198**		11,847
Total operating expenses			**421,682**		370,495
Income before patronage allocation to members and income taxes			**135,742**		179,228
Patronage allocation to members	24		**36,050**		36,127
Income before income taxes			**99,692**		143,101
Income taxes	18		**22,578**		32,180
Net income		**$**	**77,114**	$	110,921

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

SERVUS CREDIT UNION LTD.
Consolidated Statement of Comprehensive Income
(Canadian $ thousands)

	Notes		**Year ended October 31 2022**		Year ended October 31 2021
Net income		**$**	**77,114**	$	110,921
Other comprehensive loss for the year, net of tax:					
Items that will not be reclassified to profit or loss:					
Actuarial gain on defined benefit pension plans [(1)]	23		**882**		277
Share of other comprehensive income (loss) from associate					
Actuarial gain (loss) on defined benefit pension plans [(2)]			**18**		(139)
Change in unrealized gain (loss) on equity securities at fair value through other comprehensive income securities [(3)]			**3,418**		(189)
Items that may be reclassified subsequently to profit or loss:					
Share of other comprehensive (loss) income from associate					
Change in unrealized loss on debt securities at fair value through other comprehensive income securities [(4)]			**(8,742)**		(2,062)
Reclassification adjustments for realized gain on debt securities [(5)]			**489**		193
Total other comprehensive loss		**$**	**(3,935)**	$	(1,920)
Total comprehensive income		**$**	**73,179**	$	109,001

(1) Net of income tax expense for the year ended October 31, 2022 of $264 (2021 - $123)
(2) Net of income tax expense (recovery) for the year ended October 31, 2022 of $6 (2021 - $(35))
(3) Net of income tax expense (recovery) for the year ended October 31, 2022 of $1,021 (2021 - $(48))
(4) Net of income tax (recovery) for the year ended October 31, 2022 of $(2,612) (2021 - $(518))
(5) Net of income tax expense for the year ended October 31, 2022 of $146 (2021 - $49)

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

SERVUS CREDIT UNION LTD.
Consolidated Statement of Changes in Equity
(Canadian $ thousands)

	Notes	Share Capital: Common Shares	Share Capital: Investment Shares	Total Share Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
Balance at October 31, 2020		$ 566,375	$ 120,174	$ 686,549	$ 954,279	$ 12,373	$ 1,653,201
Changes in equity							
Issues of share capital	24	34,017	-	34,017	-	-	34,017
Redemption of share capital	24	(32,356)	(4,041)	(36,397)	-	-	(36,397)
Dividends on share capital	24	14,339	4,182	18,521	-	-	18,521
Net income		-	-	-	110,921	-	110,921
Dividend [1]	24	-	-	-	(14,261)	-	(14,261)
Actuarial gain on defined benefit plans	23	-	-	-	-	277	277
Share of other comprehensive loss from associate		-	-	-	-	(2,197)	(2,197)
Balance at October 31, 2021		$ 582,375	$ 120,315	$ 702,690	$ 1,050,939	$ 10,453	$ 1,764,082

	Notes	**Share Capital: Common Shares**	**Share Capital: Investment Shares**	**Total Share Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Income**	**Total Equity**
Balance at October 31, 2021		**$ 582,375**	**$ 120,315**	**$ 702,690**	**$ 1,050,939**	**$ 10,453**	**$ 1,764,082**
Changes in equity							
Issues of share capital	24	**13,219**	**-**	**13,219**	**-**	**-**	**13,219**
Redemption of share capital	24	**(37,814)**	**(4,954)**	**(42,768)**	**-**	**-**	**(42,768)**
Dividends on share capital	24	**22,113**	**6,021**	**28,134**	**-**	**-**	**28,134**
Net income		**-**	**-**	**-**	**77,114**	**-**	**77,114**
Dividend [1]	24	**-**	**-**	**-**	**(21,663)**	**-**	**(21,663)**
Actuarial gain on defined benefit plans	23	**-**	**-**	**-**	**-**	**882**	**882**
Share of other comprehensive loss from associate		**-**	**-**	**-**	**-**	**(4,817)**	**(4,817)**
Balance at October 31, 2022		**$ 579,893**	**$ 121,382**	**$ 701,275**	**$ 1,106,390**	**$ 6,518**	**$ 1,814,183**

[1] Net of income tax recovery for the year ended October 31, 2022 of $6,471 (2021 - $4,260)

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

SERVUS CREDIT UNION LTD.
Consolidated Statement of Cash Flows
(Canadian $ thousands)

		Year ended October 31 2022		Year ended October 31 2021
Cash flows from (used in) operating activities				
Net income	**$**	**77,114**	$	110,921
Adjustments for non-cash items and others				
Net interest income [(1)]		**(419,345)**		(396,561)
Provision for (recovery of) credit losses		**8,165**		(13,563)
Share of (profits) losses from investment in associate		**(1,036)**		347
Depreciation		**18,373**		18,076
Amortization		**11,198**		11,847
Impairment of assets		**631**		680
Gain on leased assets		**(22)**		(30)
Gain on assets held for sale		**(112)**		(919)
Loss on disposal of property and equipment		**429**		573
Loss on disposal of intangible assets		**41**		-
Gain on loan modifications		**-**		(2,596)
Gain on investments		**(1,219)**		-
Income taxes		**22,578**		32,180
Adjustments for net changes in operating assets and liabilities				
Change in members' loans		**(1,025,361)**		(491,569)
Change in members' deposits		**859,529**		554,748
Change in assets held for sale		**(2,882)**		(8,953)
Change in derivatives, net		**23,744**		24,417
Change in other assets, provisions, and trade payables and other liabilities, net		**11,813**		23,309
Income taxes paid, net		**(33,379)**		(21,450)
Interest received		**540,073**		545,965
Interest paid		**(112,011)**		(140,009)
Net cash (used in) from operating activities		**(21,679)**		247,413
Cash flows from (used in) investing activities				
Additions to intangible assets		**(7,106)**		(7,705)
Additions to property and equipment, and investment property		**(12,918)**		(9,815)
Proceeds on disposal of property and equipment, and investment property		**116**		162
Proceeds on disposal of assets held for sale		**3,261**		12,764
Purchase of Alberta Central shares		**(7,196)**		(8,418)
Distributions from Alberta Central		**2,239**		3,287
(Purchase of) proceeds from investments, net		**(355,933)**		588,937
Net cash (used in) from investing activities		**(377,537)**		579,212
Cash flows from (used in) financing activities				
Advances of securitization liabilities		**255,958**		155,618
Repayments of securitization liabilities		**(344,374)**		(560,518)
Repayments of principal portion of lease liabilities		**(5,217)**		(5,091)
Shares issued		**13,219**		34,017
Shares redeemed		**(42,768)**		(36,397)
Net cash used in financing activities		**(123,182)**		(412,371)
(Decrease) increase in cash and cash equivalents		**(522,398)**		414,254
Cash and cash equivalents, beginning of year		**603,208**		188,954
Cash and cash equivalents, end of year	**$**	**80,810**	$	603,208

[(1)] *Net interest income includes a fair value loss on derivatives for the year ended October 31, 2022 of $14,962 (2021 - $17,514)*

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

1. REPORTING ENTITY

Servus Credit Union Ltd. is incorporated in Canada under the Credit Union Act (The 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 financial services 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 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). 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, 2022, were authorized for issue by the Board of Directors on January 19, 2023.

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; valuation of leased assets and lease liabilities; 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 assets, modification and derecognition of assets, expected credit loss allowance (ECL), classification of financial instruments, valuation of leased assets and lease liabilities and accounting for investment in associate.

While market volatility associated with the COVID-19 pandemic has eased, current economic conditions within Alberta such as high inflation, rising interest rates, and falling unemployment levels continue to have a significant impact on the estimates and assumptions made by management in preparing the Consolidated Financial Statements. Refer to Note 3 and 8 for more information on significant judgments made to estimate the ECL.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

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

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

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

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

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., Servus Registries Ltd. (formerly 2190769 Alberta Ltd.), 1253565 Alberta Ltd., 1299443 Alberta Ltd., and 1308253 Alberta Ltd., which provide registry services

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 12 appointed board members. The remaining shares are owned by various credit unions within Alberta. Based on Alberta Central's governance structure, which requires 66.6% majority vote to change, management has concluded that the Credit Union does not control Alberta Central. Refer to Note 16 for the Credit Union's percentage of ownership in 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 or loss. 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 and 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The solely payment of principal and interest (SPPI) test is used to assess the classification and requires that the contractual terms of the financial asset (as a whole) give rise to cash flows that are solely payments of principal and interest on the principal amounts outstanding i.e. cash flows that are consistent with a basic lending arrangement. 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.

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	▼		
Investment shares in entities			▼
Shares in Concentra Bank			▼
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			▼

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Assets Measured at Amortized Cost
Financial assets under the held to collect contractual cash flows business model and with contractual cash flows that pass the SPPI test are measured at amortized cost. The assets are initially recognized at fair value which is the cash consideration to originate or purchase the asset, including any transaction costs, and is subsequently measured at amortized cost using the effective interest rate method. Interest is included in the consolidated statement of income as part of net interest income.

For member loans, ECL is reported as a deduction in the loan's carrying value on the consolidated statement of financial position 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.

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 or risks associated with other financial indices as part of its asset/liability management program. The Credit Union may apply hedge accounting to certain of its interest rate swaps which are measured at FVOCI, as discussed above. Interest rate swaps that are not included in a hedging relationship are recorded at FVTPL as stated above.

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

Financial Liabilities Measured at Amortized Cost
Financial liabilities that do not meet the criteria for the FVTPL classification fall into this category and include members' deposits, borrowings, securitization liabilities and trade payables and other liabilities. These are measured at fair value on initial recognition and subsequently at amortized cost using the effective interest method.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For loans carried at amortized cost, impairment losses are recognized at each reporting date as an expected credit loss deduction from the financial asset on the consolidated statement of financial position, and as a provision for credit losses 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.

<u>Measurement of Expected Credit Loss Allowances</u>
At each reporting date, the Credit Union recognizes an ECL based on an impairment model that comprises three different stages:

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

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

<u>Forward Looking Indicators</u>
Forward looking indicators (FLI) are incorporated into the measurement of ECL. The following factors have been determined to be most relevant to the Credit Union:

- Alberta unemployment rate
- Canadian unemployment rates (credit card book only)
- Alberta housing price index
- The rate spread between the three-month Bank of Canada bond and three-month Bankers' Acceptance rates

These macroeconomic factors are customized to each major loan grouping, taking into account any lag factors and are updated quarterly. The model includes forecasts for these FLI for the next 20 quarters and then uses a weighted average of three scenarios (base, best, and worst) of these FLI 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 and banking operations.

As the inputs used may not capture all factors, particular region specific qualitative adjustments (management overlays) may be applied at the reporting date.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Expected Life

For loans in Stages 2 and 3, ECL is 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 and revolving lines of credit).

In these cases, ECL is 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.

The assessment 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, consumer and credit card and residential mortgages use FICO scores
- Loans 30 days past due are typically considered to have experienced a significant increase in credit risk (Stage 2)
- Loans 90 days past due 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.

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. The ECL on low credit risk items can be assessed on a collective basis if detailed information is not available.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

In the securitization of residential and commercial mortgage loans, the Credit Union retains all the risks and rewards. These 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 of assets expense in the consolidated statement of income.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, cash in other financial institutions 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.

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 certain criteria are met: their economic characteristics and risks are not closely related to the host contract, they meet the definition of a derivative financial instrument, and the host contract is not classified as FVTPL.

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

When financial instruments are subsequently remeasured to fair value, quoted market prices or dealer price quotations in an active market provide the best evidence of fair value, and when such prices are available, the Credit Union uses them to measure financial instruments. 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 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:

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 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. Impairment losses are recognized in the impairment of assets expense and gains are recognized in general operating expenses on the consolidated statement of income.

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

(i) The carrying amount before the asset was classified as held for sale, adjusted for any depreciation that would have been recognized had the asset not been classified as held for sale
(ii) Its recoverable amount at the date of the subsequent decision not to sell

Any required adjustments to the carrying amount of an asset that ceases to be classified as held for sale will be recognized in general operating expenses 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 7 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 10% or more.

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.

Intangible Assets
Intangible assets with a finite life are measured at cost less accumulated amortization and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset and borrowing costs.

The cost of internally generated assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Computer software and development costs	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
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. Leases are recognized at the lease commencement date.

<u>The Credit Union as a Lessee</u>
At initial recognition, the leased asset (right-of-use 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. Lease liability is measured at amortised cost using the effective interest rate (EIR). 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.

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.

<u>The Credit Union as a Lessor</u>
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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Termination Benefits
Termination benefits are recognized when the Credit Union is committed to terminating the employment of a current employee according to a formal plan without possibility of withdrawal. Termination benefits are expensed as part of personnel expenses in the consolidated statement of income.

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. Cash dividends are recorded through retained earnings.

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 a right to redemption option.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Interest Income and Expense

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

Commissions and Fees

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

Other Revenue

Other revenue is recognized using 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 at a point in time as points are redeemed, as this is when the performance obligation is satisfied.

Other Income

Other income such as account service charges, safety deposit box rentals, and income from registries are recognized at a point in time when the services are provided, which is when the performance obligations are satisfied.

Patronage Allocation to Members

Patronage is the amount of profit that Servus shares with members based on their business with the Credit Union. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred tax is measured on the tax rates that are expected to be in effect in the period the asset is realized, or the liability is settled based on the tax rate and tax laws that have been enacted or substantively enacted by the reporting date.

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

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

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

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

4. CURRENT AND FUTURE ACCOUNTING CHANGES

Adoption of Standards in the Current Year

In the current year, the Credit Union has adopted the following accounting standard and determined that it does not have an impact on the financial statements:

<u>Interest Rate Benchmark Interbank Offered Rate Reform Phase 2</u>
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.

There is currently no impact to the financial statements for the Credit Union as hedge accounting is not currently used given that no instruments have been designated as hedges in the current period, insurance is not sold, and leases are not using a benchmarked rate.

Future Accounting Changes

Effective for the Credit Union — November 1, 2022

The Credit Union has assessed the following accounting standards effective November 1, 2022 and determined that they will have no impact on the financial statements:

4. CURRENT AND FUTURE ACCOUNTING CHANGES (CONTINUED)

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 entities from deducting from the cost of property, plant, and equipment amounts received from selling items produced while the company is preparing the asset for its intended 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.

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:

Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)
In February 2021, the IASB issued Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2). IAS 1 amendments require an entity to disclose its material accounting policies instead of its significant accounting policies and provide guidance on how an entity can identify material accounting policy information. In addition, IFRS Practice Statement 2 has been amended by adding guidance and examples to explain and demonstrate the application of the 'four-step materiality process' to accounting policy information in order to support the amendments to IAS 1.

Definition of Accounting Estimates (Amendments to IAS 8)
In February 2021, the IASB published Definition of Accounting Estimates (Amendments to IAS 8). The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates, where accounting estimates are defined as "monetary amounts in financial statements that are subject to measurement uncertainty". The amendments clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)
In May 2021, the IASB published Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12). The amendments clarify that the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition.

Effective for the Credit Union — November 1, 2024

The impact to the Credit Union of the standards effective November 1, 2024 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.

(Canadian $ thousands, except per share amounts)

4. CURRENT AND FUTURE ACCOUNTING CHANGES (CONTINUED)

In October 2022, the IASB issued further amendments to IAS 1 to modify the requirements on how an entity classifies debt and other financial liabilities as current or non-current under certain circumstances. An entity must also disclose information to convey the risk that non-current liabilities with covenants could become repayable within twelve months.

Additionally, the IASB deferred the effective date of these amendments from annual periods beginning on or after January 1, 2024.

Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)
In September 2022, the IASB issued amendments to IFRS 16 to clarify how a seller-lessee subsequently measures sale and leaseback transactions. The amendments require a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognize any amount of the gain or loss that relates to the right of use it retains.

5. CASH AND CASH EQUIVALENTS

		As at October 31 2022		As at October 31 2021
Cash on hand	**$**	**19,940**	$	16,953
ATM cash		**8,910**		9,001
Cash held in foreign currencies		**790**		388
Cash with Alberta Central		**48,136**		377,270
Cash with other financial institutions		**-**		200,000
Cheques and items in transit		**3,034**		(404)
Total	**$**	**80,810**	$	603,208

6. INVESTMENTS

		As at October 31 2022		As at October 31 2021
Term deposits with Alberta Central	**$**	**1,391,461**	$	1,035,562
Other		**1,541**		288
		1,393,002		1,035,850
Accrued interest		**5,015**		552
		1,398,017		1,036,402
ECL allowance on investments		**(2)**		(1)
Total	**$**	**1,398,015**	$	1,036,401

(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		Allowance for	Total Net of
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Credit Losses**	**Allowance**
As at October 31, 2022						
Residential mortgages	$ 8,208,068	$ 589,217	$ 16,571	$ 8,813,856	$ 4,471	$ 8,809,385
Commercial and agriculture	6,222,066	138,319	45,134	6,405,519	25,335	6,380,184
Consumer and credit card	1,063,261	97,240	3,354	1,163,855	9,290	1,154,565
Total members' loans	$ 15,493,395	$ 824,776	$ 65,059	$ 16,383,230	$ 39,096	$ 16,344,134
As at October 31, 2022						
Residential mortgages	$ 2,149,756	$ 21,000	$ 1,013	$ 2,171,769	$ 273	$ 2,171,496
Commercial and agriculture	1,550,152	10,494	130	1,560,776	1,050	1,559,726
Consumer and credit card	1,111,044	20,413	565	1,132,022	3,279	1,128,743
Total off balance sheet credit instruments	$ 4,810,952	$ 51,907	$ 1,708	$ 4,864,567	$ 4,602	$ 4,859,965

	Performing		Impaired		Allowance for	Total Net of
	Stage 1	Stage 2	Stage 3	Total	Credit Losses	Allowance
As at October 31, 2021						
Residential mortgages	$ 8,132,740	$ 503,687	$ 9,124	$ 8,645,551	$ 4,996	$ 8,640,555
Commercial and agriculture	5,439,573	177,727	37,707	5,655,007	23,136	5,631,871
Consumer and credit card	978,675	72,402	2,504	1,053,581	11,528	1,042,053
Total members' loans	$ 14,550,988	$ 753,816	$ 49,335	$ 15,354,139	$ 39,660	$ 15,314,479
As at October 31, 2021						
Residential mortgages	$ 2,107,012	$ 15,253	$ 837	$ 2,123,102	$ 379	$ 2,122,723
Commercial and agriculture	1,338,754	4,402	141	1,343,297	896	1,342,401
Consumer and credit card	1,066,550	15,595	626	1,082,771	4,303	1,078,468
Total off balance sheet credit instruments	$ 4,512,316	$ 35,250	$ 1,604	$ 4,549,170	$ 5,578	$ 4,543,592

8. ALLOWANCE FOR CREDIT LOSSES

Key Data and Assumptions

Estimating the ECL is based on a set of inputs, assumptions and methodologies placed around credit risk and future looking indicators and therefore requires significant judgment. Management has made complex and subjective judgments to assess the adequacy of the assumptions used to calculate the ECL at October 31, 2022.

These inputs and assumptions are assessed each reporting period considering both positive and negative aspects of the current economic environment. ECL models use historical information in their methodologies and assumptions, and therefore are not able to address all considerations of the current economic state. Additional analysis and an amount added to model results as a management overlay which is calculated outside of the model based on analyses, may be required. The best information available as at the reporting date is used in the model and in all additional analysis.

The Credit Union uses a model created by Central 1 (the model) to estimate the ECL. Changes in inputs and the assumptions used have an impact on the assessment of significant increase in credit risk and the measurement of ECL. 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 loans, the probability that a member will default on a loan, forecasted future looking indicators and the weightings to be used on the base, best and worst case scenarios for the FLI.

The macroeconomic factors used in the model that affect the Credit Union ECL calculations are:

- Alberta unemployment rates
- Canadian unemployment rates (Credit Card book only)
- Alberta housing price index
- The rate spread between the three-month Bank of Canada bond and three-month Bankers' Acceptance rates

(Canadian $ thousands, except per share amounts)

8. ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

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 ECL. Sensitivities around the weights of the FLI are also performed each reporting period by assessing the forecasts for each of the base, best and worst-case scenarios and determining the probability of each scenario. At October 31, 2022, management concluded that weighting to be used is a 60% base, 20% best and 20% worst-case (October 31, 2021 – 60% base, 20% best and 20% worst-case).

Where a sensitivity analysis shows that the loan book has a risk that is not adequately covered by the model calculation, the sensitivity is used to provide justification for a management overlay to be applied to the ECL calculated by the model. These analyses are performed and assessed each reporting period to estimate the amount of a management overlay amount to add to the model results.

At October 31, 2022, management has not applied an overlay (October 31, 2021 – $3.5 million) on the commercial, consumer, residential mortgages, and credit card book.

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

	Residential Mortgages	Commercial and Agriculture	Consumer and Credit Card	Total
As at October 31, 2021	**$ 5,375**	**$ 24,032**	**$ 15,831**	**$ 45,238**
Recoveries of previous loan write-offs	**4**	**128**	**5,279**	**5,411**
Provision charged to net income	**545**	**6,700**	**919**	**8,164**
	5,924	**30,860**	**22,029**	**58,813**
Loans written off	**(1,180)**	**(4,475)**	**(9,460)**	**(15,115)**
As at October 31, 2022	**$ 4,744**	**$ 26,385**	**$ 12,569**	**$ 43,698**
Presented on Consolidated Statement of Financial Position as:				
Netted with members' loans	**4,471**	**25,335**	**9,290**	**39,096**
Off balance sheet credit instruments (1)	**273**	**1,050**	**3,279**	**4,602**
Total	**$ 4,744**	**$ 26,385**	**$ 12,569**	**$ 43,698**

	Residential Mortgages	Commercial and Agriculture	Consumer and Credit Card	Total
As at October 31, 2020	$ 7,343	$ 45,260	$ 21,893	$ 74,496
Recoveries of previous loan write-offs	25	421	5,519	5,965
Provision (recovery) charged to net income	1,674	(14,337)	(900)	(13,563)
	9,042	31,344	26,512	66,898
Loans written off	(3,667)	(7,312)	(10,681)	(21,660)
As at October 31, 2021	$ 5,375	$ 24,032	$ 15,831	$ 45,238
Presented on Consolidated Statement of Financial Position as:				
Netted with members' loans	4,996	23,136	11,528	39,660
Off balance sheet credit instruments (1)	379	896	4,303	5,578
Total	$ 5,375	$ 24,032	$ 15,831	$ 45,238

(1) Off balance sheet credit instruments consisting of undrawn commitments and financial guarantees

(Canadian $ thousands, except per share amounts)

8. ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

The provision (recovery) charged to net income is:

			Year ended October 31 2022		Year ended October 31 2021
Loans		**$**	**8,164**	$	(13,563)
Investments	Note 6		**1**		-
Provision for (recovery of) credit losses		**$**	**8,165**	$	(13,563)

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, 2021	**$**	**2,281**	**$**	**2,495**	**$**	**599**	**$**	**5,375**
Transfers								
Stage 1 [1]		**76**		**(76)**		**-**		**-**
Stage 2 [1]		**(886)**		**899**		**(13)**		**-**
Stage 3 [1]		**(605)**		**(303)**		**908**		**-**
New originations [2]		**305**		**399**		**18**		**722**
Repayments [3]		**(278)**		**(332)**		**(202)**		**(812)**
Remeasurements [4]		**583**		**(904)**		**956**		**635**
Loans written off		**-**		**-**		**(1,180)**		**(1,180)**
Recoveries		**-**		**-**		**4**		**4**
As at October 31, 2022	**$**	**1,476**	**$**	**2,178**	**$**	**1,090**	**$**	**4,744**
Presented on Consolidated Statement of Financial Position as:								
Netted with members' loans		**1,262**		**2,119**		**1,090**		**4,471**
Off balance sheet credit instruments		**214**		**59**		**-**		**273**
Total	**$**	**1,476**	**$**	**2,178**	**$**	**1,090**	**$**	**4,744**

		Performing				Impaired		
		Stage 1		Stage 2		Stage 3		Total
As at October 31, 2020	$	1,996	$	3,858	$	1,489	$	7,343
Transfers								
Stage 1 [1]		460		(458)		(2)		-
Stage 2 [1]		(1,845)		2,060		(215)		-
Stage 3 [1]		(219)		(1,145)		1,364		-
New originations [2]		643		607		-		1,250
Repayments [3]		(337)		(337)		(821)		(1,495)
Remeasurements [4]		1,583		(2,090)		2,426		1,919
Loans written off		-		-		(3,667)		(3,667)
Recoveries		-		-		25		25
As at October 31, 2021	$	2,281	$	2,495	$	599	$	5,375
Presented on Consolidated Statement of Financial Position as:								
Netted with members' loans		1,968		2,430		598		4,996
Off balance sheet credit instruments		313		65		1		379
Total	$	2,281	$	2,495	$	599	$	5,375

[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 exclude loans written off where a credit loss was incurred*
[4] *Represents the change in the allowance due to changes in economic factors, risk, model parameters and management overlay*

(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, 2021	**$ 4,342**	**$ 3,493**	**$ 16,197**	**$ 24,032**
Transfers				
Stage 1 [(1)]	**23**	**(23)**	**-**	**-**
Stage 2 [(1)]	**(797)**	**797**	**-**	**-**
Stage 3 [(1)]	**(482)**	**(6,996)**	**7,478**	**-**
New originations [(2)]	**1,354**	**28**	**215**	**1,597**
Repayments [(3)]	**(479)**	**(1,103)**	**(1,045)**	**(2,627)**
Remeasurements [(4)]	**1,476**	**5,443**	**811**	**7,730**
Loans written off	**-**	**-**	**(4,475)**	**(4,475)**
Recoveries	**-**	**-**	**128**	**128**
As at October 31, 2022	**$ 5,437**	**$ 1,639**	**$ 19,309**	**$ 26,385**
Presented on Consolidated Statement of Financial Position as:				
Netted with members' loans	**4,430**	**1,626**	**19,279**	**25,335**
Off balance sheet credit instruments	**1,007**	**13**	**30**	**1,050**
Total	**$ 5,437**	**$ 1,639**	**$ 19,309**	**$ 26,385**

	Performing		Impaired	
	Stage 1	Stage 2	Stage 3	Total
As at October 31, 2020	$ 7,728	$ 14,471	$ 23,085	$ 45,284
Transfers				
Stage 1 [(1)]	813	(811)	(2)	-
Stage 2 [(1)]	(1,950)	2,067	(117)	-
Stage 3 [(1)]	(900)	(3,545)	4,445	-
New originations [(2)]	1,232	50	49	1,331
Repayments [(3)]	(722)	(743)	(457)	(1,922)
Remeasurements [(4)]	(1,859)	(7,996)	(3,915)	(13,770)
Loans written off	-	-	(7,312)	(7,312)
Recoveries	-	-	421	421
As at October 31, 2021	$ 4,342	$ 3,493	$ 16,197	$ 24,032
Presented on Consolidated Statement of Financial Position as:				
Netted with members' loans	3,485	3,479	16,172	23,136
Off balance sheet credit instruments	857	14	25	896
Total	$ 4,342	$ 3,493	$ 16,197	$ 24,032

[(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 exclude loans written off where a credit loss was incurred*
[(4)] *Represents the change in the allowance due to changes in economic factors, risk, model parameters and management overlay*

(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, 2021	**$ 6,777**	**$ 7,950**	**$ 1,104**	**$ 15,831**
Transfers				
Stage 1 [(1)]	**209**	**(207)**	**(2)**	**-**
Stage 2 [(1)]	**(2,837)**	**2,854**	**(17)**	**-**
Stage 3 [(1)]	**(912)**	**(519)**	**1,431**	**-**
New originations [(2)]	**946**	**953**	**131**	**2,030**
Repayments [(3)]	**(591)**	**(412)**	**(104)**	**(1,107)**
Remeasurements [(4)]	**1,042**	**(4,323)**	**3,277**	**(4)**
Loans written off	**-**	**-**	**(9,460)**	**(9,460)**
Recoveries	**-**	**-**	**5,279**	**5,279**
As at October 31, 2022	**$ 4,634**	**$ 6,296**	**$ 1,639**	**$ 12,569**
Presented on Consolidated Statement of Financial Position as:				
Netted with members' loans	**2,564**	**5,132**	**1,594**	**9,290**
Off balance sheet credit instruments	**2,070**	**1,164**	**45**	**3,279**
Total	**$ 4,634**	**$ 6,296**	**$ 1,639**	**$ 12,569**

	Performing		Impaired	
	Stage 1	Stage 2	Stage 3	Total
As at October 31, 2020	$ 8,925	$ 11,337	$ 1,631	$ 21,893
Transfers				
Stage 1 [(1)]	1,057	(1,040)	(17)	-
Stage 2 [(1)]	(4,850)	5,096	(246)	-
Stage 3 [(1)]	(727)	(3,072)	3,799	-
New originations [(2)]	2,924	676	1	3,601
Repayments [(3)]	(983)	(820)	(2,668)	(4,471)
Remeasurements [(4)]	431	(4,227)	3,766	(30)
Loans written off	-	-	(10,681)	(10,681)
Recoveries	-	-	5,519	5,519
As at October 31, 2021	$ 6,777	$ 7,950	$ 1,104	$ 15,831
Presented on Consolidated Statement of Financial Position as:				
Netted with members' loans	3,494	6,963	1,071	11,528
Off balance sheet credit instruments	3,283	987	33	4,303
Total	$ 6,777	$ 7,950	$ 1,104	$ 15,831

[(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 exclude loans written off where a credit loss was incurred
[(4)] Represents the change in the allowance due to changes in economic factors, risk, model parameters and management overlay

(Canadian $ thousands, except per share amounts)

9. CREDIT QUALITY OF MEMBERS' LOANS

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

	FICO Score Range			Risk Rating Range
Risk Assessment	**Insured Residential Mortgages**	**Conventional Residential Mortgages**	**Consumer and Credit Card**	**Commercial and Agriculture**
Very low risk	800 +	800 +	800 +	1
Low risk	701 - 799	701 - 799	701 - 799	2 and 3
Medium risk	600 - 700	650 - 700	650 - 700	4 and 5
High risk/impaired	599 or less	649 or less	649 or less	6 ,7, 8, and 9

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

As at October 31, 2022	**Residential Mortgages**	**Commercial and Agriculture**	**Consumer and Credit Card**	**Total**
Risk Categories				
Very low risk	**$ 3,511,111**	**$ 20,351**	**$ 358,489**	**$ 3,889,951**
Low risk	**3,224,167**	**2,677,056**	**477,962**	**6,379,185**
Medium risk	**1,479,844**	**3,573,588**	**208,202**	**5,261,634**
High risk	**582,163**	**89,390**	**115,848**	**787,401**
Impaired	**16,571**	**45,134**	**3,354**	**65,059**
Total members' loans	**$ 8,813,856**	**$ 6,405,519**	**$ 1,163,855**	**$ 16,383,230**

As at October 31, 2021	Residential Mortgages	Commercial and Agriculture	Consumer and Credit Card	Total
Risk Categories				
Very low risk	$ 3,369,197	$ 27,661	$ 294,297	$ 3,691,155
Low risk	3,745,741	2,255,221	412,635	6,413,597
Medium risk	1,047,651	3,200,714	179,254	4,427,619
High risk	473,838	133,704	164,891	772,433
Impaired	9,124	37,707	2,504	49,335
Total members' loans	$ 8,645,551	$ 5,655,007	$ 1,053,581	$ 15,354,139

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

As at October 31, 2022	**Residential Mortgages**	**Commercial and Agriculture**	**Consumer and Credit Card**	**Total**
Risk Categories				
Very low risk	**$ 1,059,561**	**$ 166,667**	**$ 648,063**	**$ 1,874,291**
Low risk	**1,030,669**	**1,124,821**	**347,472**	**2,502,962**
Medium risk	**50,968**	**267,773**	**95,100**	**413,841**
High risk	**29,558**	**1,385**	**40,822**	**71,765**
Impaired	**1,013**	**130**	**565**	**1,708**
Total off balance sheet credit instruments	**$ 2,171,769**	**$ 1,560,776**	**$ 1,132,022**	**$ 4,864,567**

As at October 31, 2021	Residential Mortgages	Commercial and Agriculture	Consumer and Credit Card	Total
Risk Categories				
Very low risk	$ 1,018,692	$ 148,711	$ 599,418	$ 1,766,821
Low risk	1,046,300	948,286	312,200	2,306,786
Medium risk	49,999	245,408	59,865	355,272
High risk	7,274	751	110,662	118,687
Impaired	837	141	626	1,604
Total off balance sheet credit instruments	$ 2,123,102	$ 1,343,297	$ 1,082,771	$ 4,549,170

(Canadian $ thousands, except per share amounts)

9. CREDIT QUALITY OF MEMBERS' LOANS (CONTINUED)

Loans Past Due, as at October 31, 2022		**Up to 30 Days**		**31 to 59 Days**		**60 to 89 Days**		**Over 90 Days**		**Total**
Stage 1										
Residential mortgages	**$**	**59,195**	**$**	**-**	**$**	**-**	**$**	**-**	**$**	**59,195**
Commercial and agriculture		**14,806**		**-**		**-**		**-**		**14,806**
Consumer and credit card		**18,110**		**-**		**-**		**-**		**18,110**
Stage 2										
Residential mortgages		**25,943**		**33,284**		**10,745**		**6,521**		**76,493**
Commercial and agriculture		**27,801**		**16,812**		**8,005**		**6,203**		**58,821**
Consumer and credit card		**7,042**		**5,449**		**2,260**		**59**		**14,810**
Stage3										
Residential mortgages		**-**		**-**		**-**		**15,986**		**15,986**
Commercial and agriculture		**23**		**528**		**39**		**30,642**		**31,232**
Consumer and credit card		**-**		**-**		**-**		**3,319**		**3,319**
Total	**$**	**152,920**	**$**	**56,073**	**$**	**21,049**	**$**	**62,730**	**$**	**292,772**

Loans Past Due, as at October 31, 2021		Up to 30 Days		31 to 59 Days		60 to 89 Days		Over 90 Days		Total
Stage 1										
Residential mortgages	$	64,995	$	-	$	-	$	-	$	64,995
Commercial and agriculture		8,532		-		-		-		8,532
Consumer and credit card		16,425		-		-		-		16,425
Stage 2										
Residential mortgages		27,744		33,195		9,529		10,113		80,581
Commercial and agriculture		7,297		23,476		20,543		47,641		98,957
Consumer and credit card		6,413		5,288		1,994		56		13,751
Stage3										
Residential mortgages		-		-		-		8,986		8,986
Commercial and agriculture		236		71		109		21,478		21,894
Consumer and credit card		-		-		-		2,441		2,441
Total	$	131,642	$	62,030	$	32,175	$	90,715	$	316,562

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.

Loans by Security		**As at October 31 2022**		As at October 31 2021
Insured loans and mortgages	**$**	**3,068,313**	$	3,081,029
Secured by mortgage		**11,820,006**		10,879,690
Secured by other		**917,007**		854,592
Unsecured loans		**341,161**		318,493
Unsecured credit card		**236,743**		220,335
Total	**$**	**16,383,230**	$	15,354,139

(Canadian $ thousands, except per share amounts)

10. ASSETS HELD FOR SALE

	As at October 31 2022	As at October 31 2021
Foreclosed property	**$ 2,201**	$ 2,608
Other land and buildings	**-**	491
Total	**$ 2,201**	$ 3,099

Management has concluded that an impairment on assets held for sale was required to be recorded by the Credit Union. An impairment loss of $631 (2021 – $680) has been recorded in the consolidated statement of income.

11. OTHER ASSETS

	As at October 31 2022	As at October 31 2021
Accounts receivable and other receivables	**$ 13,926**	$ 12,124
Prepaid expenses	**22,186**	21,565
Total	**$ 36,112**	$ 33,689

12. PROPERTY AND EQUIPMENT

	Land	**Buildings**	**Leasehold Improvement**	**Furniture, Office Equipment and Vehicles**	**Computer Equipment**	**Total**
Cost						
Balance as at October 31, 2020	$ 26,354	$ 157,589	$ 40,911	$ 29,882	$ 25,328	$ 280,064
Additions	-	1,963	1,287	4,075	2,490	9,815
Disposals	-	(451)	(1,333)	(2,743)	(549)	(5,076)
Transfer to investment property	-	(87)	-	-	-	(87)
Balance as at October 31, 2021	$ 26,354	$ 159,014	$ 40,865	$ 31,214	$ 27,269	$ 284,716
Additions	-	2,719	2,775	3,811	3,613	12,918
Disposals	-	(856)	(24)	(4,038)	(5,045)	(9,963)
Transfer to investment property	-	(59)	-	-	-	(59)
Balance as at October 31, 2022	**$ 26,354**	**$ 160,818**	**$ 43,616**	**$ 30,987**	**$ 25,837**	**$ 287,612**
Accumulated Depreciation						
Balance as at October 31, 2020	$ -	$ 74,950	$ 30,086	$ 21,559	$ 16,127	$ 142,722
Depreciation	-	4,454	1,869	2,184	3,187	11,694
Disposals	-	(256)	(967)	(2,573)	(545)	(4,341)
Transfer from investment property	-	16	-	-	-	16
Balance as at October 31, 2021	$ -	$ 79,164	$ 30,988	$ 21,170	$ 18,769	$ 150,091
Depreciation	-	4,420	1,365	2,538	3,523	11,846
Disposals	-	(599)	(24)	(3,853)	(4,942)	(9,418)
Transfer from investment property	-	6	-	-	-	6
Balance as at October 31, 2022	**$ -**	**$ 82,991**	**$ 32,329**	**$ 19,855**	**$ 17,350**	**$ 152,525**
Net Book Value						
At October 31, 2021	26,354	79,850	9,877	10,044	8,500	134,625
At October 31, 2022	**26,354**	**77,827**	**11,287**	**11,132**	**8,487**	**135,087**

(Canadian $ thousands, except per share amounts)

13. LEASES

	Land	Buildings	Other Equipment	Computer Equipment	Total
Cost					
Balance as at October 31, 2020	$ 2,975	$ 55,245	$ 509	$ 853	$ 59,582
Additions	-	9,548	132	210	9,890
Disposals	(16)	(1,076)	(7)	-	(1,099)
Balance as at October 31, 2021	$ 2,959	$ 63,717	$ 634	$ 1,063	$ 68,373
Additions	221	15,446	111	45	15,823
Disposals	(119)	(514)	-	-	(633)
Balance as at October 31, 2022	**$ 3,061**	**$ 78,649**	**$ 745**	**$ 1,108**	**$ 83,563**
Accumulated Depreciation					
Balance as at October 31, 2020	$ 143	$ 5,453	$ 55	$ 444	$ 6,095
Depreciation	146	5,612	56	253	6,067
Disposals	(10)	(280)	(5)	-	(295)
Balance as at October 31, 2021	$ 279	$ 10,785	$ 106	$ 697	$ 11,867
Depreciation	151	5,802	60	238	6,251
Disposals	(16)	(177)	-	-	(193)
Balance as at October 31, 2022	**$ 414**	**$ 16,410**	**$ 166**	**$ 935**	**$ 17,925**
Net Book Value					
At October 31, 2021	2,680	52,932	528	366	56,506
At October 31, 2022	**2,647**	**62,239**	**579**	**173**	**65,638**

For the year ended October 31, 2022, the Credit Union had non-cash additions to leased assets of $15,823 (2021 – $9,890), lease liabilities of $17,320 (2021 – $10,173) and interest expense related to leases of $2,736 (2021 – $2,436). 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 2022	As at October 31 2021
Within 1 year	**$ 8,107**	$ 7,787
Between 1 and 5 years	**29,876**	24,818
After 5 years	**64,709**	50,348
Total future lease payments	**$ 102,692**	$ 82,953
Less present value discount	**28,679**	20,580
Total lease liabilities	**$ 74,013**	$ 62,373

(Canadian $ thousands, except per share amounts)

14. INVESTMENT PROPERTY

		Land		Buildings		Total
Cost						
Balance as at October 31, 2020	$	1,523	$	10,296	$	11,819
Transfer from property and equipment		-		87		87
Balance as at October 31, 2021	$	1,523	$	10,383	$	11,906
Transfer from property and equipment		-		59		59
Balance as at October 31, 2022	**$**	**1,523**	**$**	**10,442**	**$**	**11,965**
Accumulated Depreciation						
Balance as at October 31, 2020	$	-	$	5,699	$	5,699
Depreciation		-		315		315
Transfer to property and equipment		-		(16)		(16)
Balance as at October 31, 2021	$	-	$	5,998	$	5,998
Depreciation		-		276		276
Transfer to property and equipment		-		(6)		(6)
Balance as at October 31, 2022	**$**	**-**	**$**	**6,268**	**$**	**6,268**
Net Book Value						
At October 31, 2021		1,523		4,385		5,908
At October 31, 2022		**1,523**		**4,174**		**5,697**

The fair value of investment property held is $11,664 (2021 – $12,320).

Income Related To Investment Property		**As at October 31 2022**		As at October 31 2021
Rental income	**$**	**890**	$	1,152
Direct operating expense from property generating rental income		**811**		805
Total	**$**	**79**	$	347

Future rental payments receivable are as follows:

		As at October 31 2022		As at October 31 2021
Less than 1 year	**$**	**552**	$	628
Between 1 and 5 years		**1,546**		1,659
More than 5 years		**2,848**		3,178
Total	**$**	**4,946**	$	5,465

(Canadian $ thousands, except per share amounts)

15. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

	As at October 31, 2022			As at October 31, 2021		
	Gross Financial Assets	**Gross Financial Liabilities**	**Net**	Gross Financial Assets	Gross Financial Liabilities	Net
Equity-linked options	**$ 8,792**	**$ (8,674)**	**$ 118**	$ 9,507	$ (9,385)	$ 122
Interest rate swaps	**-**	**(39,922)**	**(39,922)**	-	(16,182)	(16,182)
Total	**$ 8,792**	**$ (48,596)**	**$ (39,804)**	$ 9,507	$ (25,567)	$ (16,060)

As of the current reporting date there are no derivative financial instrument contracts subject to an enforceable master netting agreement.

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 2022**	As at October 31 2021
Interest rate swaps					
receive fixed, pay floating	**$ 250,000**	**$ -**	**$ 600,000**	**$ 850,000**	$ 850,000
Equity-linked options	**-**	**11,975**	**104,425**	**116,400**	94,150
Total	**$ 250,000**	**$ 11,975**	**$ 704,425**	**$ 966,400**	$ 944,150

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.

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, 2022, is 57.8% (2021 – 57.6%).

The table below is summarized from monthly financial statements provided by Alberta Central:

Financial Information from Alberta Central	**As at October 31 2022**	As at October 31 2021
Assets	**$ 3,970,597**	$ 3,712,622
Liabilities	**3,617,518**	3,358,076
Revenues	**44,457**	25,091
Income (loss) before distributions	**809**	(1,955)
Other comprehensive loss	**(10,832)**	(4,816)

(Canadian $ thousands, except per share amounts)

16. INVESTMENT IN ASSOCIATE (CONTINUED)

Investment in Associate - Alberta Central		**As at October 31 2022**		As at October 31 2021
Opening balance	**$**	**199,886**	$	197,851
Purchase of additional shares		**7,196**		8,418
Share of profits (losses)		**1,036**		(347)
Share of other comprehensive loss		**(6,256)**		(2,749)
Distributions		**(2,239)**		(3,287)
Total	**$**	**199,623**	$	199,886

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 2022**		As at October 31 2021
Cash	**$**	**48,136**	$	377,270
Term deposits		**1,391,461**		1,035,562
Accrued interest on term deposits		**4,827**		489
Other assets		**2,035**		2,680
Trade payables and other liabilities		**8,991**		1,471

		2022		2021
Interest income	**$**	**5,304**	$	6,267
Interest expense		**1,051**		757
Other income		**604**		753
Membership fees expense		**3,662**		3,108
Other expense		**2,466**		2,244

(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, 2020	$ 3,530	$ 83,477	$ 6,486	$ 28,707	$ 122,200
Additions	1,600	-	6,105	-	7,705
Disposals	(88)	(1,165)	-	-	(1,253)
Transfers	-	2,947	(2,947)	-	-
Balance as at October 31, 2021	$ 5,042	$ 85,259	$ 9,644	$ 28,707	$ 128,652
Additions	69	-	7,037	-	7,106
Disposals	(938)	(1,222)	-	-	(2,160)
Transfers	-	578	(578)	-	-
Balance as at October 31, 2022	**$ 4,173**	**$ 84,615**	**$ 16,103**	**$ 28,707**	**$ 133,598**
Accumulated Amortization					
Balance as at October 31, 2020	$ 2,703	$ 49,816	$ -	$ 7,895	$ 60,414
Amortization	476	8,501	-	2,870	11,847
Disposals	(88)	(1,165)	-	-	(1,253)
Balance as at October 31, 2021	$ 3,091	$ 57,152	$ -	$ 10,765	$ 71,008
Amortization	494	7,833	-	2,871	11,198
Disposals	(897)	(1,222)	-	-	(2,119)
Balance as at October 31, 2022	**$ 2,688**	**$ 63,763**	**$ -**	**$ 13,636**	**$ 80,087**
Net Book Value					
As at October 31, 2021	1,951	28,107	9,644	17,942	57,644
As at October 31, 2022	**1,485**	**20,852**	**16,103**	**15,071**	**53,511**

(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		**2022**		2021
Current tax expense				
Based on current year taxable income	**$**	**24,778**	$	29,623
Adjustments for under (over) provision in prior periods		**98**		(215)
Sub total		**24,876**		29,408
Deferred tax (recovery) expense				
Origination and reversal of temporary differences		**(2,349)**		2,749
Adjustments for under provision in prior periods		**51**		23
Sub total		**(2,298)**		2,772
Total	**$**	**22,578**	$	32,180

Reconciliation of effective tax rate:

		2022			2021	
Income before income taxes	**$**	**99,692**		$	143,101	
Income tax expense based on statutory rate		**22,929**	**23.00%**		32,913	23.00%
Effect on non-deductible expenses		**(541)**	**(0.54%)**		(481)	(0.34%)
Adjustments for under (over) provision in prior periods		**149**	**0.15%**		(192)	(0.13%)
Other		**41**	**0.04%**		(60)	(0.04%)
Total income tax expense	**$**	**22,578**	**22.65%**	$	32,180	22.49%

(Canadian $ thousands, except per share amounts)

18. INCOME TAXES (CONTINUED)

Deferred tax assets and liabilities:

The movement in deferred tax assets and liabilities is:

Deferred Tax Assets and Liabilities	**As at October 31 2021**	**Recognized in Net Income**	**Recognized in OCI**	**As at October 31 2022**
Deferred tax assets (liabilities):				
Member loans	**$ 6,768**	**$ (1,190)**	**$ -**	**$ 5,578**
Property and equipment	**(12,419)**	**2,518**	**-**	**(9,901)**
Derivative instruments	**84**	**-**	**-**	**84**
Investment in associate	**(9,657)**	**(26)**	**1,439**	**(8,244)**
Employee benefits & other payables	**3,295**	**419**	**(264)**	**3,450**
Leases	**1,349**	**577**	**-**	**1,926**
Net consolidated deferred tax assets (liabilities)	**$ (10,580)**	**$ 2,298**	**$ 1,175**	**$ (7,107)**

	As at October 31 2020	Recognized in Net Income	Recognized in OCI	As at October 31 2021
Deferred tax assets (liabilities):				
Member loans	$ 11,815	$ (5,047)	$ -	$ 6,768
Property and equipment	(13,884)	1,465	-	(12,419)
Derivative instruments	(170)	254	-	84
Investment in associate	(11,124)	915	552	(9,657)
Employee benefits & other payables	4,059	(641)	(123)	3,295
Leases	1,066	283	-	1,349
Net consolidated deferred tax assets (liabilities)	$ (8,238)	$ (2,771)	$ 429	$ (10,580)

19. BORROWINGS

	As at October 31 2021	**Advances**	**Repayments**	**As at October 31 2022**	**Interest and Fee Payments**
Line of credit	**$ -**	**$ 878,801**	**$ (878,801)**	**$ -**	**$ 129**
Revolving	**-**	**-**	**-**	**-**	**516**
Non-Revolving	**200,000**	**-**	**-**	**200,000**	**5,302**
Total	**$ 200,000**	**$ 878,801**	**$ (878,801)**	**$ 200,000**	**$ 5,947**

	As at October 31 2020	Advances	Repayments	As at October 31 2021	Interest and Fee Payments
Line of credit	$ -	$ 168,248	$ (168,248)	$ -	$ 14
Revolving	-	-	-	-	511
Non-Revolving	200,000	-	-	200,000	2,007
Total	$ 200,000	$ 168,248	$ (168,248)	$ 200,000	$ 2,532

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.

19. BORROWINGS (CONTINUED)

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 July 29, 2025.

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. A standby fee is paid quarterly for any undrawn amounts from the facility.

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

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

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

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 21, 2021.

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, 2023.

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

(Canadian $ thousands, except per share amounts)

20. SECURITIZATION LIABILITIES

	Maturity Date	Interest Rate		As at October 31 2022		As at October 31 2021
Securitization liabilities	Nov 3, 2022 to Dec 1, 2028	0.332% to 2.475%	**$**	**690,874**	$	766,784

Securitization liabilities interest payments made for the year are $13,759 (2021 – $19,204). Interest received for unsold mortgage pools during the year are $2,571 (2021 – $3,829).

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, 2022, of the associated residential and commercial mortgages held as security is $888,820 (2021 – $981,110). 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 2022		As at October 31 2021
Demand accounts	**$**	**8,040,517**	$	8,248,673
Term deposits		**4,588,742**		3,634,222
Registered plans		**2,575,438**		2,461,747
Other deposits		**12,645**		13,171
		15,217,342		14,357,813
Accrued interest		**48,122**		22,982
Total	**$**	**15,265,464**	$	14,380,795

22. TRADE PAYABLES AND OTHER LIABILITIES

		As at October 31 2022		As at October 31 2021
Cheques and other items in transit	**$**	**26,723**	$	23,004
Accounts payable		**148,324**		152,682
Credit card points liability		**9,527**		9,249
Dividend and patronage to members		**35,025**		35,208
Deferred income		**8,982**		7,949
Legal provisions		**284**		197
Total	**$**	**228,865**	$	228,289

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 estimates for the provisions are based on the best information available at the reporting date.

(Canadian $ thousands, except per share amounts)

22. TRADE PAYABLES AND OTHER LIABILITIES (CONTINUED)

Legal and Contractual Claims		
Balance at October 31, 2020	$	257
Additional provisions recognized		87
Unused amounts reversed		(147)
Balance at October 31, 2021	$	197
Additional provisions recognized		266
Amounts incurred and charged against existing provisions		(179)
Balance at October 31, 2022	**$**	**284**

23. EMPLOYEE BENEFITS

		2022		2021
Short-term employee benefits	**$**	**217,576**	$	208,601
Post-employment benefits		**9,932**		9,698
Termination benefits		**16,901**		215
Total	**$**	**244,409**	$	218,514

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**		**2022**		2021
Net benefit plan cost in net income								
Current service cost	**$**	**105**	**$**	**-**	**$**	**105**	$	154
Interest cost		**100**		**42**		**142**		134
Total		**205**		**42**		**247**		288
Defined contribution registered retirement savings plan - Credit Union contributions		**9,936**		**-**		**9,936**		10,054
Total		**10,141**		**42**		**10,183**		10,342
Actuarial loss (gain) recognized in other comprehensive income		**404**		**(1,229)**		**(825)**		321
Total	**$**	**10,545**	**$**	**(1,187)**	**$**	**9,358**	$	10,663

Accrued Benefit Obligation and Liability		**Pension Plans**		**Other Benefit Plans**		**As at October 31 2022**		As at October 31 2021
Unfunded accrued benefit obligation								
Balance, beginning of year	**$**	**3,788**	**$**	**1,728**	**$**	**5,516**	$	8,126
Current service cost [(1)]		**105**		**-**		**105**		154
Interest cost [(1)]		**100**		**42**		**142**		134
Benefits paid		**(247)**		**(57)**		**(304)**		(2,498)
Actuarial gain		**(692)**		**(454)**		**(1,146)**		(400)
Balance, end of year	**$**	**3,054**	**$**	**1,259**	**$**	**4,313**	$	5,516

[(1)] Current service cost and Interest cost are included in personnel operating expenses on the consolidated statement of income

(Canadian $ thousands, except per share amounts)

23. EMPLOYEE BENEFITS (CONTINUED)

	Pension Plans		Other Benefit Plans	
	2022	2021	**2022**	2021
Discount rate	**5.30%**	2.70%	**5.30%**	2.50%

Changes in the assumed health care cost trend rates for the post-retirement benefit plans for the year ended October 31, 2022, are:

Effect on:		**Inflation increased by 1%**		**Discount rate decreased by 1%**
Accrued benefit obligation	$	2	$	112

Experience Adjustments		**2022**		2021
Accrued benefit obligation and liability	**$**	**4,313**	$	5,516
Experience gain		**(1,146)**		(400)
Tax expense		**264**		123
Net experience gain	**$**	**(882)**	$	(277)
Defined benefit contributions expected to be paid in 2023	**$**	**304**		

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

(Canadian $ thousands, except per share amounts)

24. SHARE CAPITAL (CONTINUED)

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

	Issued and Outstanding as at October 31 2021	Issued	Redeemed and Transferred	Dividends Declared	Issued and Outstanding as at October 31 2022	Investment Share Liability Portion
Common shares total	$ 582,375	$ 13,219	$ (37,814)	$ 22,113	$ 579,893	
Investment shares						
Series A	53,811	-	(2,536)	2,812	54,087	-
Series B	8,100	-	(407)	383	8,076	-
Series C	21,063	-	(997)	1,000	21,066	-
Series D	32,003	-	(937)	1,541	32,607	-
Series E	4,385	-	(53)	238	4,570	443
Series F	596	-	(19)	29	606	-
Series G	357	-	(5)	18	370	-
Investment shares total	$ 120,315	$ -	$ (4,954)	$ 6,021	$ 121,382	$ 443
Share capital total	$ 702,690	$ 13,219	$ (42,768)	$ 28,134	$ 701,275	

	Issued and Outstanding as at October 31 2020	Issued	Redeemed and Transferred	Dividends Declared	Issued and Outstanding as at October 31 2021	Investment Share Liability Portion
Common shares total	$ 566,375	$ 34,017	$ (32,356)	$ 14,339	$ 582,375	
Investment shares						
Series A	53,322	-	(1,375)	1,864	53,811	-
Series B	8,164	-	(345)	281	8,100	-
Series C	21,012	-	(678)	729	21,063	-
Series D	32,308	-	(1,413)	1,108	32,003	-
Series E	4,434	-	(216)	167	4,385	430
Series F	582	-	(7)	21	596	-
Series G	352	-	(7)	12	357	-
Investment shares total	$ 120,174	$ -	$ (4,041)	$ 4,182	$ 120,315	$ 430
Share capital total	$ 686,549	$ 34,017	$ (36,397)	$ 18,521	$ 702,690	

Patronage and Dividends Payable in Cash or Shares	**2022**	2021
Patronage allocation to members in cash	**$ 36,050**	$ 36,127
Common share dividend	**22,113**	14,339
Investment share dividend	**6,021**	4,182
Total	**$ 64,184**	$ 54,648

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 (%)	**2022**	2021
Common share	**4.00%**	2.60%
Investment share	**5.00% - 5.50%**	3.60%

(Canadian $ thousands, except per share amounts)

25. INVESTMENT INCOME

		2022		2021
Investment income on term deposits and other	**$**	**14,882**	$	6,332
Unrealized gain (loss) on derivative instruments		**(14,937)**		(17,370)
Realized (loss) gain on derivative instruments		**(8,057)**		2,229
Total	**$**	**(8,112)**	$	(8,809)

26. OTHER INTEREST EXPENSE

		2022		2021
Term loans	**$**	**4,531**	$	2,339
Line of credit		**129**		14
Securitization liabilities		**15,700**		24,437
Other		**73**		65
Total	**$**	**20,433**	$	26,855

27. OTHER INCOME

		2022		2021
Account service charges	**$**	**35,919**	$	32,528
Loan and prepayment fees		**15,153**		18,656
Commissions		**14,831**		13,830
Wealth management revenue		**27,575**		24,371
Credit card revenue		**32,627**		27,789
Insurance revenue		**10,123**		13,166
Registries revenue		**344**		334
Foreign exchange income		**3,948**		2,816
Gain on loan modifications		**-**		2,596
Other		**4,688**		3,860
Total	**$**	**145,208**	$	139,946

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 retained earnings at an amount sufficient on its own to meet regulatory requirements for capital as a percent of total assets and total risk-weighted 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 exceptional, but plausible events.

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, 2022, and 2021, the Credit Union's capital ratio was greater than the minimum requirement.

The chart below details the amounts that are included in the 2022 and 2021 capital calculations. Regulator and internal management capital requirements are noted after this chart.

(Canadian $ thousands, except per share amounts)

28. CAPITAL MANAGEMENT (CONTINUED)

		As at October 31 2022		As At October 31 2021
Primary Capital:				
Retained earnings	**$**	**1,106,390**	$	1,050,939
Common shares		**579,893**		582,375
Investment shares (qualifying as primary)		**109,643**		108,670
Accumulated other comprehensive income		**6,518**		10,453
Total primary capital		**1,802,444**		1,752,437
Secondary Capital:				
Credit loss allowance - performing		**21,662**		27,339
Deferred income tax liabilities		**7,107**		10,580
Investment shares (qualifying as secondary)		**12,182**		12,075
Total secondary capital		**40,951**		49,994
Deductions From Primary Capital:				
Intangible assets		**53,511**		57,644
Subsidiary and affiliate investments		**35,244**		42,703
Total deductions from capital		**88,755**		100,347
Total capital available	**$**	**1,754,640**	$	1,702,084
Capital as % of Risk Weighted Assets				
Total capital as % of risk weighted assets		**16.37%**		17.42%
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		**9.57%**		9.75%
Legislated minimum		**4.00%**		4.00%

(Canadian $ thousands, except per share amounts)

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.

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 $48,322 (2021 – $47,906). 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 2022**		As at October 31 2021
Original term to maturity of one year or less	**$**	**4,622,983**	$	4,409,209
Original term to maturity of more than one year		**193,262**		92,055
Total	**$**	**4,816,245**	$	4,501,264

(Canadian $ thousands, except per share amounts)

29. GUARANTEES, COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

Property and Equipment and Intangible Assets Expenditure Commitments		**As at October 31 2022**		As at October 31 2021
Total contractual amount	**$**	**268**	$	229
Cost to date		**-**		40
Remaining commitment	**$**	**268**	$	189

The Credit Union also has a callable unfunded capital commitment of $77 (2021 – $111) to a co-operative investment fund.

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 2022**		As at October 31 2021
Within 1 year	**$**	**3,449**	**$**	**16,061**	**$**	**19,510**	$	13,166
Between 1 and 5 years		**9,748**		**18,155**		**27,903**		19,801
After 5 years		**5,029**		**1,440**		**6,469**		4,994
Total	**$**	**18,226**	**$**	**35,656**	**$**	**53,882**	$	37,961

As of October 31, 2022, the Credit Union is committed to one lease that has been signed but has not yet commenced. The leased asset value of this contract is $1,974 at the time of commencement. This contract is not included in the leased assets or leased liabilities presented in the consolidated financial statements.

Contingent Liabilities
There are various legal proceedings and actions that arise from the normal course of business and are pending at October 31, 2022. The aggregate contingent liability of these proceedings and actions are not considered material to these consolidated financial statements.

(Canadian $ thousands, except per share amounts)

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, 2022	**Note**		**Carrying Value**		**Fair Value**		**Fair Value Difference**
Financial Instrument Assets							
Cash and cash equivalents	**a**	**$**	**80,810**	**$**	**80,810**	**$**	**-**
Interest bearing deposits with financial institutions	**c,e**		**1,396,474**		**1,389,575**		**(6,899)**
Assets at fair value through profit or loss	**d**		**10,314**		**10,314**		**-**
Members' loans	**b,c,e**		**16,344,134**		**15,640,214**		**(703,920)**
Other	**a**		**13,944**		**13,944**		**-**
Total financial instrument assets			**17,845,676**		**17,134,857**		**(710,819)**
Financial Instrument Liabilities							
Members' deposits	**b,c**		**15,265,464**		**15,187,019**		**(78,445)**
Liabilities at fair value through profit or loss	**d**		**48,596**		**48,596**		**-**
Borrowings	**a**		**200,000**		**200,000**		**-**
Securitization liabilities	**c**		**690,874**		**671,833**		**(19,041)**
Payables and other financial liabilities	**a**		**220,042**		**220,042**		**-**
Total financial instrument liabilities		**$**	**16,424,976**	**$**	**16,327,490**	**$**	**(97,486)**

As at October 31, 2021	Note		Carrying Value		Fair Value		Fair Value Difference
Financial Instrument Assets							
Cash and cash equivalents	a	$	603,208	$	603,208	$	-
Interest bearing deposits with financial institutions	c,e		1,036,113		1,036,554		441
Assets at fair value through profit or loss	d		9,785		9,785		-
Members' loans	b,c,e		15,314,479		15,373,576		59,097
Other	a		12,134		12,134		-
Total financial instrument assets			16,975,719		17,035,257		59,538
Financial Instrument Liabilities							
Members' deposits	b,c		14,380,795		14,391,257		10,462
Liabilities at fair value through profit or loss	d		25,567		25,567		-
Borrowings	b		200,000		200,000		-
Securitization liabilities	c		766,784		779,625		12,841
Payables and other financial liabilities	a		220,573		220,573		-
Total financial instrument liabilities		$	15,593,719	$	15,617,022	$	23,303

(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, member deposits and borrowings are assumed to equal their book values since the interest rates reprice when market rates change.
(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.
(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.

(Canadian $ thousands, except per share amounts)

30. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(e) Allowances, which are netted against the fair value determined as per footnote c and d, use forward-looking information in the calculation of ECL.

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, 2022	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial Assets				
Derivative assets	**$ -**	**$ 8,792**	**$ -**	**$ 8,792**
Investment shares in entities [(1)]	**-**	**-**	**76**	**76**
Shares in Concentra Bank [(1)]	**-**	**-**	**1,446**	**1,446**
Total	**$ -**	**$ 8,792**	**$ 1,522**	**$ 10,314**
Financial Liabilities				
Member shares - Series E	**-**	**443**	**-**	**443**
Derivative liabilities	**-**	**48,596**	**-**	**48,596**
Total	**$ -**	**$ 49,039**	**$ -**	**$ 49,039**

Fair value measurements using Level 3 inputs	
Balance at October 31, 2021	$ 278
Fair value through profit and (loss)	1,219
Purchases	25
Balance at October 31, 2022	**$ 1,522**

As at October 31, 2021	Level 1	Level 2	Level 3	Total
Financial Assets				
Derivative assets	$ -	$ 9,507	$ -	$ 9,507
Investment shares in entities [(1)]	-	-	51	51
Shares in Concentra Bank [(1)]	-	-	227	227
Total	$ -	$ 9,507	$ 278	$ 9,785
Financial Liabilities				
Member shares - Series E	-	430	-	430
Derivative liabilities	-	25,567	-	25,567
Total	$ -	$ 25,997	$ -	$ 25,997

Fair value measurements using Level 3 inputs	
Balance at October 31, 2020	$ 270
Fair value through profit and (loss)	12
Purchases	13
Sales	(17)
Balance at October 31, 2021	$ 278

[(1)] *Investment shares in entities and Shares in Concentra Bank are included in investments on the consolidated statement of financial position*

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.

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 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.

(Canadian $ thousands, except per share amounts)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

Objectives, Policies and Processes
The Treasury department is responsible for managing the Credit Union's interest rate risk, monitoring approved limits and maintaining compliance with policies. The Credit Union manages market risk by developing and implementing asset and liability management policies. These policies are reviewed and 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 Audit and Finance Committee reviews the Credit Union's investment and asset liability management policies.

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:		**2022**		2021
1% increase in rates	**$**	**(8,038)**	$	(3,179)
1% decrease in rates	**$**	**8,160**	$	(7,008)

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, 2022, the Credit Union's net difference between assets and liabilities in foreign currencies was $1,669 (2021 – $128).

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

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

The Credit Union's liquidity policies and practices include:
- Measurement and forecast of cash flows
- Maintenance of a pool of high-quality liquid assets
- A stable base of core deposits from retail and commercial customers
- Limits on single deposits and sources of deposits
- Monitoring of wholesale demand and term deposits
- Diversification of funding resources
- Monthly liquidity coverage ratio (LCR) analysis and reporting

The Credit Union manages liquidity by monitoring, forecasting and managing cash flows and the concentration of loans and deposits within approved policies. The Treasury department manages day-to-day liquidity within these policies and reports regularly to ALCO to ensure policy compliance. Management provides monthly reports on these matters to the 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 2022, the Credit Union's liquidity as at October 31, 2022, 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 100%, with an internal target minimum of 125%. During the year the Credit Union maintained internal liquidity adequacy targets that exceeded regulatory requirements.

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

(Canadian $ thousands, except per share amounts)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

The following table comprises aggregating cash flows into maturity dates of the Credit Union's non-derivative financial assets and financial liabilities. Subject to member 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.

As at October 31, 2022	**Non-Maturities**	**Less than 1 Year**	**1 to 3 Years**	**3 to 5 Years**	**Over 5 Years**	**Total**
Financial Assets						
Cash and cash equivalents	**$ 80,810**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 80,810**
Investments	**2,409**	**1,312,369**	**70,225**	**13,012**	**-**	**1,398,015**
Members' loans	**1,881,029**	**3,751,481**	**5,328,339**	**5,208,256**	**175,029**	**16,344,134**
Accounts receivable	**-**	**13,962**	**-**	**-**	**-**	**13,962**
Total financial assets	**$ 1,964,248**	**$ 5,077,812**	**$ 5,398,564**	**$ 5,221,268**	**$ 175,029**	**$ 17,836,921**
Financial Liabilities						
Members' deposits	**8,836,977**	**5,222,517**	**993,951**	**212,019**	**-**	**15,265,464**
Trade payables and other liabilities	**443**	**219,601**	**-**	**-**	**-**	**220,044**
Borrowings	**-**	**200,000**	**-**	**-**	**-**	**200,000**
Securitization liabilities	**-**	**212,834**	**327,057**	**146,992**	**3,991**	**690,874**
Total financial liabilities	**$ 8,837,420**	**$ 5,854,952**	**$ 1,321,008**	**$ 359,011**	**$ 3,991**	**$ 16,376,382**
Net maturities	**$ (6,873,172)**	**$ (777,140)**	**$ 4,077,556**	**$ 4,862,257**	**$ 171,038**	**$ 1,460,539**

As at October 31, 2021	Non-Maturities	Less than 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
Financial Assets						
Cash and cash equivalents	$ 603,208	$ -	$ -	$ -	$ -	$ 603,208
Investments	351	960,631	37,408	38,011	-	1,036,401
Members' loans	2,009,115	4,069,825	5,023,780	4,086,133	125,626	15,314,479
Accounts receivable	-	11,889	-	-	-	11,889
Total financial assets	$ 2,612,674	$ 5,042,345	$ 5,061,188	$ 4,124,144	$ 125,626	$ 16,965,977
Financial Liabilities						
Members' deposits	9,167,598	3,662,382	1,435,911	114,892	12	14,380,795
Trade payables and other liabilities	430	219,902	242	-	-	220,574
Borrowings	-	200,000	-	-	-	200,000
Securitization liabilities	-	242,869	404,619	115,223	4,073	766,784
Total financial liabilities	$ 9,168,028	$ 4,325,153	$ 1,840,772	$ 230,115	$ 4,085	$ 15,568,153
Net maturities	$ (6,555,354)	$ 717,192	$ 3,220,416	$ 3,894,029	$ 121,541	$ 1,397,824

(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, 2022	**Floating Rate**	**0 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**More Than 1 Year**	**Non Interest Sensitive**	**Total**
Assets							
Cash and cash equivalents	$ 48,136	$ -	$ -	$ -	$ -	$ 32,674	$ 80,810
Effective yield (%)	*0.25%*	-	-	-	-	-	*0.15%*
Investment in associate	-	-	-	-	-	199,623	199,623
Investments	-	964,142	260,030	83,370	83,237	7,236	1,398,015
Effective yield (%)	-	*2.80%*	*1.42%*	*3.57%*	*1.49%*	-	*2.50%*
Members' loans	3,626,016	652,747	537,662	1,158,493	10,109,819	259,397	16,344,134
Effective yield (%)	*6.93%*	*3.73%*	*3.71%*	*3.76%*	*3.24%*	-	*4.08%*
Other assets	-	-	-	-	-	315,878	315,878
	3,674,152	1,616,889	797,692	1,241,863	10,193,056	814,808	18,338,460
Liabilities and Equity							
Members' deposits	6,443,573	956,890	999,044	3,185,739	2,325,333	1,354,885	15,265,464
Effective yield (%)	*1.32%*	*1.57%*	*1.54%*	*2.66%*	*1.57%*	-	*1.55%*
Other liabilities	-	-	-	-	-	367,939	367,939
Borrowings	-	200,000	-	-	-	-	200,000
Effective yield (%)	-	*4.57%*	-	-	-	-	*4.57%*
Securitization liabilities	-	55,425	43,484	114,140	485,955	(8,130)	690,874
Effective yield (%)	-	*3.78%*	*2.76%*	*2.60%*	*1.92%*	-	*2.26%*
Equity	-	-	-	-	-	1,814,183	1,814,183
	6,443,573	1,212,315	1,042,528	3,299,879	2,811,288	3,528,877	18,338,460
Off Statement of Financial Position							
Notional value of assets derivative financial instruments	-	250,000	-	-	600,000	-	850,000
Notional value of liabilities derivative financial instruments	(850,000)	-	-	-	-	-	(850,000)
Sub total	(850,000)	250,000	-	-	600,000	-	-
Net 2022 position	$ (3,619,421)	$ 654,574	$ (244,836)	$ (2,058,016)	$ 7,981,768	$ (2,714,069)	$ -

As at October 31, 2021	Floating Rate	0 to 3 Months	3 to 6 Months	6 to 12 Months	More Than 1 Year	Non Interest Sensitive	Total
Assets							
Cash and cash equivalents	$ 577,270	$ -	$ -	$ -	$ -	$ 25,938	$ 603,208
Effective yield (%)	*0.30%*	-	-	-	-	-	*0.29%*
Investment in associate	-	-	-	-	-	199,886	199,886
Investments	-	683,608	187,763	88,771	74,407	1,852	1,036,401
Effective yield (%)	-	*0.28%*	*0.21%*	*0.30%*	*1.46%*	-	*0.35%*
Members' loans	3,299,138	819,293	720,311	1,612,238	8,634,516	228,983	15,314,479
Effective yield (%)	*3.48%*	*3.16%*	*3.17%*	*3.15%*	*3.13%*	-	*3.16%*
Other assets	-	-	-	-	-	300,978	300,978
	3,876,408	1,502,901	908,074	1,701,009	8,708,923	757,637	17,454,952
Liabilities and Equity							
Members' deposits	7,035,574	1,221,058	746,662	1,669,531	2,380,923	1,327,047	14,380,795
Effective yield (%)	*0.18%*	*0.98%*	*1.12%*	*0.84%*	*0.84%*	-	*0.46%*
Other liabilities	-	-	-	-	-	343,291	343,291
Borrowings	-	200,000	-	-	-	-	200,000
Effective yield (%)	-	*0.93%*	-	-	-	-	*0.93%*
Securitization liabilities	-	47,609	35,614	159,833	524,825	(1,097)	766,784
Effective yield (%)	-	*4.08%*	*1.74%*	*2.22%*	*2.27%*	-	*2.35%*
Equity	-	-	-	-	-	1,764,082	1,764,082
	7,035,574	1,468,667	782,276	1,829,364	2,905,748	3,433,323	17,454,952
Off Statement of Financial Position							
Notional value of assets derivative financial instruments	-	-	-	-	850,000	-	850,000
Notional value of liabilities derivative financial instruments	(850,000)	-	-	-	-	-	(850,000)
Sub total	(850,000)	-	-	-	850,000	-	-
Net 2021 position	$ (4,009,166)	$ 34,234	$ 125,798	$ (128,355)	$ 6,653,175	$ (2,675,686)	$ -

(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	2022
Chief Executive Officer (CEO)	**$ 1,458**	**$ 57**	**$ 136**	**$ 1,651**
Chief Financial Officer (CFO)	**608**	**36**	**29**	**673**
Chief Operating Officer (COO)	**654**	**36**	**29**	**719**
Chief Risk Officer (CRO)[1]	**480**	**27**	**27**	**534**
Chief Information & Payments Officer (CIPO)	**555**	**31**	**29**	**615**
Chief Credit Officer (CCO)[2]	**23**	**2**	**2**	**27**
Chief Transformation Officer (CTO)[3]	**589**	**33**	**26**	**648**
Chief People & Corporate Services Officer (CPO)[4]	**22**	**3**	**5**	**30**
Total	**$ 4,389**	**$ 225**	**$ 283**	**$ 4,897**

(1) The CRO position was created in November 2021
(2) The CCO position was eliminated in November 2021 and had total termination benefits of $440
(3) The CMO position title changed to CTO in November 2021
(4) The CPO position was eliminated in November 2021 and had total termination benefits of $900

	Salary and Bonus	Benefits	Post Employment Benefits	2021
Chief Executive Officer (CEO) [1]	$ 722	$ 36	$ 148	$ 906
Chief Executive Officer (CEO) [2]	740	30	60	830
Chief Financial Officer (CFO)	591	34	28	653
Chief Operating Officer (COO)	599	33	28	660
Chief Information Officer (CIO) [3]	90	4	4	98
Chief Information & Payment Officer (CIPO)	538	30	28	596
Chief Credit Officer (CCO)	537	30	28	595
Chief People & Corporate Services Officer (CPO)	524	36	28	588
Chief Marketing & Digital Banking Officer (CMO)	527	30	27	584
Chief Member Experience Officer (CMEO) [4]	388	20	129	537
Total	$ 5,256	$ 283	$ 508	$ 6,047

(1) The CEO position was occupied by 2 officers during the year. Amount reported relates to prior officer
(2) The CEO position was occupied by 2 officers during the year. Amount reported relates to current officer
(3) The CIO position was eliminated effective December 2020
(4) The CMEO position was eliminated effective May 2021

(Canadian $ thousands, except per share amounts)

33. RELATED PARTY DISCLOSURES (CONTINUED)

Directors' Compensation and Expenses		**2022**		2021
Compensation to directors	**$**	**714**	$	727
Expenses incurred by directors		**107**		20
Total	**$**	**821**	$	747

Compensation to directors ranged from $14 (2021 – $26) to $84 (2021 – $93) with an average of $55 (2021 – $56).

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 2022**		As at October 31 2021
Key management personnel	**$**	**2,301**	$	2,027
Board of directors		**6,713**		4,842
Other employees		**357,132**		401,074
Total	**$**	**366,146**	$	407,943

Members' Deposits		**As at October 31 2022**		As at October 31 2021
Key management personnel	**$**	**337**	$	640
Board of directors		**2,428**		2,841
Other employees		**150,046**		170,836
Total	**$**	**152,811**	$	174,317

34. COMPARATIVE FIGURES

Certain comparative figures in the consolidated statements and note disclosures have been reclassified to conform to the current year's presentation.

35. EVENTS AFTER THE REPORTING PERIOD

On November 1, 2022, the Credit Union's five registries were amalgamated into a newly incorporated entity called Servus Registries Ltd. The amalgamation does not have a financial impact on the Credit Union's consolidated financial statements.

On November 1, 2022, Equitable Bank completed the acquisition of Concentra Bank, and has established that it will buy back shares from shareholders at a premium. As at October 31, 2022, the Credit Union holds investment shares in Concentra Bank, and an adjustment has been made to increase the carrying value of the shares by $1,219 based on an estimation of the anticipated premium. The acquisition of shares from the Credit Union is expected to be finalized in fiscal year 2023.

Subsequent to October 31, 2022, the Credit Union entered discussions with a real-estate member regarding the terms of a large commercial loan held by the member. This event resulted in the loan being classified as impaired in fiscal year 2023. The discussions are currently ongoing and the impact on the expected credit loss is not determinable at this time. At October 31, 2022, the loan has a carrying amount of $27,000 and a Stage 2 ECL of $505.

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