



## Management's Discussion and Analysis

For the year ended October 31, 2023

Servus Corporate Centre, 151 Karl Clark Road, Edmonton, Alberta T6N 1H5

Toll Free 1.877.378.8728 | [servus.ca](http://servus.ca)

**SERVUS CREDIT UNION LTD.**  
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Servus Credit Union Ltd.'s ('Servus's' or 'Servus Credit Union' or 'Credit Union') 2023 annual report consists of the Management's Discussion and Analysis and the Consolidated Financial Statements for the year ended October 31, 2023, which details our credit union's financial and operating results. This document is available on request or online at [www.servus.ca](http://www.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**

With a long history in Alberta, Servus stands as a testament to enduring strength and stability in the financial industry. Guided by a strategic and visionary approach, Servus has weathered many storms over its rich 80 plus year history and, as such, has successfully shaped its future by staying ahead of industry trends to ensure a sustainable future.

With an unwavering dedication to serving our members across all corners of the province, Servus has and will continue to embrace a spirit of evolution and adaptability. Servus is looking ahead to the future and imagining what new products and services could be offered to increase the value for our members, while always remaining true to our roots. Servus is an organization that will forge new pathways, empower our employees in the pursuit of our ambitious strategic priorities, and continue to position ourselves as a leader in the financial services industry.

In 2023, our focus was on advancing our transformational priorities, established in the previous year. Leading Servus in these efforts is an exceptional 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.” It is at the core of everything we do. It motivates us and gives us a sense of responsibility. It provides us with the ethical and moral ownership to make the best decisions possible in the interest of our members each and every day. Nothing is more important. As such, we strive to offer the best products, services and platforms to help our members achieve their financial goals and help them navigate the changing financial landscape around us.

Over the past 80 years, we've found that, in uncertain times, members look to Servus to provide reassurance, guidance and creative thinking to help them meet their personal or business financial goals. It's how we've always operated and it's something we'll continue to do, for years to come. We're proud of the relationships we have developed with our members and we see ourselves as a valuable strategic partner, offering support and financial solutions, and enabling members to face any challenge and seize any opportunity.

## **Our Values**

Values are the core principles and fundamental beliefs that guide and lead us in our day-to-day interactions with our members. They are the deeply ingrained convictions that shape our employees' behaviours, organizational decisions and guide our culture. With consistent and authentic application, strong values can lead to stronger relationships, trust and credibility. They are at the heart of everything we do.

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At Servus, we have clearly defined values that were announced in 2022 under the direction of our Executive Leadership Team. We have three types of values:

- Our **core values** are the values that guide every decision we make and remind ourselves that we are a co-operative business that puts our members at the forefront, while we encourage and support them on their path to improving their financial fitness.
- Our **aspirational values** are those values that empower our employees and inspire them to take calculated risks and to be smart, gutsy and driven.
- Our **permission to play values** enable us to conduct ourselves and our work with integrity, honesty, and fairness.

As we have witnessed, clearly defined values serve as a beacon and a framework to help navigate difficult decisions. When employees are aligned with the organization's values, it fosters a shared sense of purpose, confidence in their decisions, and a clear and focused direction.

### **Strong, Stable & Steady Growth**

The financial services industry is shifting rapidly in response to changing consumer demands, accelerated digitization, technological advancements, and changing financial needs.

In 2023, Servus and connectFirst Credit Union announced their intent to merge. The merger is subject to Servus and connectFirst Credit Union obtaining the regulatory approvals necessary to close. After such a closing, the merged credit union would work at the scale necessary to thrive long-term. The merged entity would have the scale to make ongoing investment into new tools and technologies that would free us to spend more time on the things that really matter—connecting with members and helping members achieve their goals.

In addition to scale, we are committed to improving efficiencies to better meet our current and future member needs and provide a best-in-class experience for our members.

With this focus, we achieved strong financial performance in 2023, which included significant growth of 10.9% for a total of \$20.3 billion in total assets. Deposits also had a large increase of 9.2% to \$16.7 billion and loans increased 11.4% to \$18.2 billion.

### **Advancing Transformational Priorities**

#### **Market-Leading Growth**

*Goal:* To expand our service offering to more members, and in doing so, fortify our ability to continually reinvest in market-leading services.

Achieving growth and scale is paramount for our credit union's sustainability. To achieve this, we've evolved our approach to include both organic and acquired growth, which has impacted all areas of our business, including retail, business banking, wealth and insurance, and cards.

In 2024, our plan is to:

- Concentrate on loan growth that supports profitability and a strong capital level while continuing to grow our deposit base
- Grow other income and scale wealth assets under administration
- Increase our market presence with our recently acquired, Stride Capital Corp, a Calgary-based equipment financing and leasing provider
- Work to provide more mortgage insurance options for members

#### **Easy To Do Business With**

*Goal:* To ensure it's easy for our members to bank with us, while improving the ease with which our staff can provide great member service.

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One of the ways we support our ambitious growth targets is by making it easy for members to do business with us and easier for employees to deliver products and services to our members.

In 2022, Servus examined our readiness to transform business operations to achieve our ambitious strategic outcomes. This resulted in a set of critical actions to improve the services we offered our members and our employees experience.

In 2023, we began implementing those critical actions and identified several 'quick wins,' such as improved processes, policies, and simple tool enhancements. We also leveraged the automation and consolidation of work and centralized tasks among different departments. In doing so, we made immediate improvements that resulted in a quicker and more efficient delivery of products and services, with over 80% of employees indicating an improvement in productivity and user experience.

In 2024, our plan includes:

- The expected launch of our new digital banking platform after its 2023 delay. This new platform aims to continuously enhance our suite of services and improve personal banking experiences. We will also empower our business members with potential new enhancements, as this platform continually evolves over time.
- The modernization of our credit card platform. While this has been ongoing in recent years, we look forward to bringing the credit union's card offering to more Albertans than ever before.
- Positioning ourselves for future scalability and growth by preparing for open banking. We plan to implement technology and modernize our payments product offerings via the Prairie Payments Joint Venture, which provides credit union members with access to efficient, cost-effective, and modern payments processing infrastructure.
- Focusing on several foundational technologies and process improvements that will increase efficiency and improve our members' experience in some of our core product offerings. We believe that improving data maturity and employee productivity is a critical business objective for Servus. In addition, Servus expects to implement artificial intelligence, machine learning, and robotic strategies that will help improve our productivity.

### **Fast-Moving Performance Culture**

**Goal:** To shift our culture to one that thrives, within the disruption coming at us, and to continually evolve and innovate.

Over the past two years, Servus transformed our internal work environment, with the aim of creating a fast-moving performance culture. In 2023, we continued this journey, fostering an environment that motivates and empowers employees to go above and beyond and collaborate effectively. As part of this, we rolled out learning modules aimed at re-grounding employees into our values and critical behaviours while also helping shift our culture and grow our teams' ability to change and adapt.

Other initiatives delivered in 2023 included maintaining a hybrid work model while creating new forums for employees to stay connected, growing the organization's change acumen and adding a new index to our Balanced Scorecard focused on measuring culture performance. Together, these initiatives reinforce Servus's reputation as one of Deloitte's Best Managed Companies which attracts and retains top talent.

In 2024, our plan is to:

- Ensure that we maintain high levels of employee engagement through which employees continue to deliver high-caliber work that they understand is connected to our strategy.
- Ensure that our people have the opportunities to collaborate in the right ways, on the right things, at the right time, fueling innovation and competitive advantage.
- Focus on attracting and retaining top talent as well as training and upskilling employees with the skillsets required to thrive in the current environment.
- Continue to work and further shift our culture to one that is fast-moving, adaptable and resilient.

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## **Mergers and Acquisitions**

Mergers and acquisitions play an important role in Servus's aim to grow and expand its presence in the dynamic and changing financial services industry. Success in this area lies in the ability to identify and capitalize on key strategic opportunities that align with our noble purpose, values, and priorities.

In 2023, Servus acquired Stride Capital Corp, a Calgary-based equipment financing and leasing provider, which reinforced Servus's commitment to providing an extended range of high-quality financial services to our members and helped broaden our product and service offerings. Going forward, Servus will continue to identify similar strategic opportunities to further grow our business and help contribute to our overall financial success.

Additionally, in February 2023, Servus announced the intent to merge with connectFirst Credit Union. The proposed merger is subject to Servus and connectFirst Credit Union obtaining the regulatory approvals necessary to close. In late 2023, both organizations' members independently supported the proposed merger, with Servus members voting 84% and connectFirst Credit Union members voting 85% in favour. The credit union member votes were the culmination of a comprehensive effort to engage and inform members that included in-branch, online, social, digital, traditional media, email and direct mail channels as well as 33 open houses to inform and engage members regarding the proposed merger and its intended benefits.

There are many expected benefits of the proposed merger, including:

### **For members:**

- A greater ability to bank where, when, and how they want
- An increased ability to invest in new innovative products, tools, and services to meet members' evolving needs
- More than 3,000 employees dedicated to deeply understanding member needs and finding solutions to match
- A truly province-wide network of branches, with more than 140 branches in 80 communities
- A commitment to remaining in every community currently served by Servus and connectFirst Credit Union

### **For employees:**

- A culture that builds on the strengths of each individual organization
- Opportunities to achieve great things with more like-minded professionals who share a passion for credit union values
- New career opportunities and more professional development
- Access to more tools and resources

### **For communities:**

- An increased ability to support Alberta's communities
- A combined level of expertise and commitment to all Albertans – rural, urban, newcomers and multi-generational residents alike
- More opportunities for members to contribute time and money to the communities and causes that matter to them
- More opportunities to foster meaningful connections and a sense of belonging in each community

## **Environment, Social & Governance+**

Servus views Environment, Social & Governance+ (ESG+) as a lens to manage our business, in a manner that meets the needs of our present members and communities, without compromising the ability to meet the needs of future generations. While ESG+ generally focuses on three pillars: environment, social and governance, Servus also includes a fourth pillar: economics. Our ESG+ framework incorporates reporting on our carbon footprint and ensures there are systems in place for corporate accountability.

As set out in our strategy, Servus balances ESG+ with our existing economic and financial goals, which helps us identify ESG+ opportunities and risks that will augment our strategic and financial success. This approach allows

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us to develop quantifiable goals in an integrated manner and continues to balance our strategic priorities while monitoring inter-relationships.

**Environmental Reporting**

For the past several years Servus had been collecting environmental data under our previous Corporate Social Responsibility program (now part of our ESG+ approach). This is important information we will continue to collect and adjust over time, as environmental industry practices evolve and considerations are made, such as climate change.

Additionally, Servus has been tracking various environmental measures since 2021 and as our ESG+ program evolves, Servus will consider expanding our emissions tracking.

**Social Reporting**

At Servus, our social reporting includes 2SLGBTQ+ diversity, equity, inclusion and belonging at all levels of our organization and within our hiring practices. Servus has long prioritized social aspects into our operations, which can be seen in our Community Engagement program, DEIB programs, Community Councils, and more.

**Governance Reporting**

From the Board of Directors to our front-line branches, Servus has strong governance practices and continually works to improve upon them. These practices include compliance management processes, a code of conduct process, whistleblower process, and a board competencies/attributes matrix. We believe these robust practices will benefit our members, employees and other stakeholders, while continuing to position Servus as a leader in Canada's financial services industry.

**Member Financial Fitness**

In the context of ESG+, economic reporting is an area that focuses on the efficient use of resources to improve profitability and achieve economic growth while helping those in the community.

Servus's noble purpose also translates into an economic impact. We believe that by helping our members become more financially fit, they will be better at managing their family needs and ultimately contribute to a stronger community.

In 2023, Servus members outpaced the financial fitness of Albertans. Our annual Financial Fitness score was 5.7% higher than the average Albertan, indicating that Servus's approach to helping our members become more financially fit is resonating with our members.

The table below highlights the financial fitness scores of Servus members compared with non-Servus banking Albertans over the past three years.

<b>Overall Financial Fitness Score</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
Servus Credit Union Members	74.3	71.9	72.5
Alberta	69.6	66.3	66.8
Difference between Servus Credit Union and Albertans	4.7%	5.6%	5.7%

\* The data source: Annual Financial Fitness Survey – conducted for Servus

Servus believes helping our members become more financially fit is important especially 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 to support our members and have them feel good about their money.

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Some of the ways that we're doing this include:

- Offering the Profit Share® program to support our members.
- Introducing the Refugee Financial Relief Program that provides financial support for those affected by crisis like the one in Ukraine. From March 2022-2023, this program has contributed over \$1.7 million directly to Ukrainians settling in Alberta.
- Expanding our New to Canada program to provide membership and credit solutions for newcomers to Canada, as well as helpful advice to assist them in navigating the Canadian financial landscape.
- Being one of the first financial institutions in Canada to introduce the Tax-Free First Home Savings Account, which helps members afford their first home by combining the benefits of their Registered Retirement Savings Plan with their Tax-Free Savings Account.

### **Community Engagement**

As part of our cooperative values, Servus believes in investing in the communities in which we operate. 2023 was no exception. We contributed over two million dollars in sponsorships, philanthropic giving, and community initiatives, while many of our employees also volunteered their time to local causes.

Working with approximately 400 organizations throughout Alberta, Servus continued to build strength and prosperity in our local communities. Servus supports partnerships in three important areas: Community Access, Financial Fitness and Mental Well-Being.

Some highlights of our 2023 partnerships include:

#### *Community Access*

In partnering with local organizations that offer free or reduced admission fees for people to enjoy community and cultural activities, Servus helps foster a sense of well-being. We believe that free or low-cost events can help alleviate financial stress and provide people an opportunity to enjoy various types of activities.

One of those activities is the Servus Tube Park at WinSport in Calgary. This is a multi-year partnership that Servus has in place. Last year, over 23,000 people attended the Servus Tube Park during the season, representing a 25% increase over the same time period the previous year, with approximately 40 tube park sessions completely sold out.

As part of this successful partnership, Servus members are also able to enjoy discounts throughout the winter season at WinSport.

#### *Improving Financial Fitness*

As a strong proponent of financial literacy, Servus supports programs that teach people of all ages the importance of managing their finances.

One of these programs is Junior Achievement, which has deep roots in Alberta and helps educate Alberta's youth about the importance of financial awareness and planning. Since 2008, Servus has successfully partnered with Junior Achievement in both northern and southern Alberta and has become the presenting sponsor of Financial Literacy Month. This program supports classrooms across the province for students in grades 4-12. Servus employees are encouraged to volunteer and teach programs such as More than Money, Dollars with Sense and Economics of Success.

In 2023, 10,900 students were registered to participate in both Junior Achievement (northern Alberta & N.W.T) and Junior Achievement (southern Alberta) Financial Literacy Month.

#### *Supporting Mental Well-Being*

Supporting mental well-being for individuals and families in our communities is important. By partnering with organizations that share our beliefs, Servus can help provide much-needed relief to Albertans during challenging times.



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For example, Servus is proud to be involved with the Sage Seniors Association (Sage). As part of their Seniors Life Enrichment Community Calendar, a broad variety of activities and programs are offered to seniors. Some of these include fitness and art classes, group and club meetings, drop-in activities, learning sessions and celebrations to support healthy aging in the community.

Sage's Life Enrichment programming also promotes socialization, intellectual stimulation, skills acquisition, physical fitness that support aging in place, and wellness opportunities to help seniors remain connected and engaged in their communities.

### Diversity Equity Inclusion and Belonging



Servus welcomes and celebrates the diversity of all our members and communities. Our goal is to create a culture of belonging that is felt by everyone who walks through our door. As such, we have created a Diversity, Equity, Inclusion and Belonging (DEIB) Council for employees that works together with our three Servus Employee Resource Circles (SERC) to foster and maintain a culture of belonging.

Our SERCs are dynamic communities of employees who share common backgrounds and experiences. Together, these groups actively promote networking, mentorship, and collaboration, strategically cultivating an inclusive workplace where diverse perspectives drive innovation.

We also rolled out learning modules aimed at re-grounding employees into our values and critical behaviours while also helping shift our culture and grow our teams' ability to change and adapt. DEIB initiatives throughout 2023 included efforts that doubled employee involvement in our SERCs.

For example, in 2023, Servus created both the South Asian Resource Circle and the Black, Indigenous and People of Color (BIPOC) SERCs. These circles were added to the dynamic communities within our organization to unite employees who share similar backgrounds and experiences.

To celebrate the launch of the BIPOC SERC, a donation of \$5,000 was made to Ruth's House, an organization that delivers culturally based programs for families experiencing domestic violence and Black Canadian Women in Action, which supports Black female entrepreneurs.

Servus recognizes that SERCs also bring insight to Servus's programs and community partnerships. For example, members of SERCs have helped inform the development of initiatives within Servus to support newcomers to Canada.

Also, for the second year in a row, the Pride Employee Resource Circle supported Drag Me Out to the Ball Game, a charity event that raised \$32,000 for two groups: the Bent Arrow Traditional Healing Society, which supports the mental, emotional, spiritual and physical well-being of Indigenous children, youth and families, and the Imperial Sovereign Court of the Wild Rose, which raises funds for the LGBTQ2S+ community.

### Community Councils

As a member-owned credit union, it is critically important to understand the communities in which we work and play. As such, Servus has created 38 community councils, as a way to keep Servus connected to its members and obtain community feedback. These councils are comprised of actively involved members in the community, as well as advocates for the credit union way of banking.

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The community councils meet four times a year with their local Servus branch manager to receive an update from Servus and to discuss topics relevant to their community. The members on the councils are also willing to critically examine Servus and share their opinions with us, which we appreciate.

## Recognizing Our Credit Union

In 2023, Servus was honoured to receive several prestigious awards, reflective of our employees' ongoing efforts to provide exceptional member service.

In 2023, Servus:

- Requalified as a Platinum Club member of Deloitte LLPs' Canada's Best Managed Companies. This is a level reserved for businesses who have maintained their Best Managed Companies status for seven or more years. Servus has received this award for the past 20 years.
- Was named one of the best banks 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 an aggregate of Canadian credit unions that received the Ipsos 2023 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 fourth 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.

## 2023 Economic Review

At Servus, economic factors play an important role in shaping decisions and outcomes. Macroeconomic elements are always closely monitored so business decisions can be made with the most relevant knowledge available at the time.

As of October 31, 2023, the global economy was projected to achieve real growth of 3.0% in calendar 2023, decelerating from the 3.5% growth in 2022, while continuing to navigate volatile markets, high inflation rates, and the impact of the ongoing Russian invasion of Ukraine and conflict in the Middle East. Attempting to lower inflation, central banks continued to implement restrictive monetary policy during the year. While inflation rates did decrease, they ended the year above target levels, with the possibility of continued restrictive monetary policy actions remaining at year end.<sup>1</sup>

Most central banks are focused on achieving a "soft landing," reducing inflation back to target without significantly worsening economic conditions. Uncertainty regarding the policy rate changes needed to achieve this contributed to significant volatility in yields during the year. Medium-term tenors, such as the 5-year, swung up and down repeatedly. They bottomed in March 2023 before beginning a relatively steady climb upwards, ending 70 basis points (bps) higher than the year's start (and 380 bps higher than their bottom reached in August 2020). Yield curve inversion increased since the year's start and the probability of global recession in the next year sat near 50%.<sup>1,8</sup>

<sup>1</sup>World Economic Outlook (Update). International Monetary Fund. July 2023.

<sup>2</sup>Monetary Policy Report. Bank of Canada. July 2023.

<sup>3</sup>Economy at a Glance (United States – Monthly Data). U.S. Bureau of Labour Statistics. Website accessed Sep. 19, 2023.

<sup>4</sup>Spring 2023 Regional (Edmonton CMA) and City (Edmonton) Forecast Summary. City of Edmonton. July 2023.

<sup>5</sup>Mid-Year 2023 Economic Update. City of Edmonton. July 2023.

<sup>6</sup>2023-24 First Quarter Fiscal Update and Economic Statement. Government of Alberta. August 2023.

<sup>7</sup>Alberta Politics: Support tilts towards backing renewable moratorium, but worries over jobs, power prices linger. Angus Reid Institute. Sep. 14, 2023.

<sup>8</sup>Various economic and financial market data including estimates. Bloomberg. Data accessed on demand, as recently as publication date.

<sup>9</sup>Cruel Summer: Trudeau's Liberals trail opposition CPC by seven points at midway mark of federal election cycle. Angus Reid Institute. Aug. 14, 2023.

<sup>10</sup>The Alberta Advantage is melting away. Alberta Central. April 2023.

<sup>11</sup>Alberta Consumer Price Index. Alberta Government Economic Dashboard. Website accessed Oct. 27, 2023.

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Economist consensus estimates are for the United States to finish calendar 2023 with 2.2% real GDP growth, an increase of 0.3% over the 1.9% achieved in 2022. The US unemployment rate sat at 3.8% in September 2023, little-changed from 3.7% in October 2022. Headline inflation continued its gradual decline from a peak of 9.1% reached in June 2022, but edged up in some of the final months of the year. It remained above target at 3.5% in September 2023. The US central bank policy rate has likely peaked at its current level of 5.5%, but a low probability of further hikes remains. US public equities broadly rose year-over-year, recovering most of the decrease incurred in the prior year, when sharply rising yields sparked downward revaluations. That said, after a good run earlier in the year, US stocks corrected downwards by almost 10% on a peak-to-trough basis in the quarter ended Oct. 31, 2023.<sup>3, 8</sup>

Canada is expected to produce 1.2% real GDP growth in calendar 2023, down from 3.5% in 2022. Its inflation rate also gradually declined during the year, projected to end the year at 3.9%, although its unemployment rate is projected to end 2023 at 5.4%, slightly higher than 5.3% last year. The Bank of Canada (BoC) continued its restrictive monetary policy actions and, at the time of writing, is expected to keep holding its policy rate at the current peak of 5% before eventually starting rate cuts in the second half of 2024. However, Canadian inflation has persisted higher for longer than originally anticipated and upside inflation risks remain. If future economic data makes it necessary, the BoC is expected to resume hiking rates to ensure inflation falls fully back to target. On average, Canadian households have significant leverage and are facing concurrent pressures of higher debt servicing costs along with housing prices that remain relatively high by historical standards. Consumers also face challenges due to the higher cost of core goods such as food and energy. In response, the federal government has pursued new policies to address some of these concerns, such as GST exemptions on new housing and engaging with grocery retailers to stabilize food prices.<sup>2, 8, 9</sup>

Alberta's economic growth cooled from the rapid 5.1% pace of 2022, projected to finish calendar 2023 with 1.0% real GDP annual growth. Alberta's economy benefitted from relatively higher oil prices, particularly in the latter half of calendar 2023. West Texas Intermediate (WTI) crude oil traded as high as US\$93 per barrel in September, after trading as low as US\$67 per barrel in June. Alberta is expected to finish calendar 2023 with a 3.5% increase in employment, though its unemployment rate was expected to increase to 6.0% from 5.8% last year. Alberta continues to experience strong population growth, as Canadians relocate from other provinces due to Alberta's strong economic conditions paired with more affordable housing costs. Alberta's population is projected to grow by 4.4% in 2023, which is the fastest rate of population growth since 1981. Like the Canadian national average, Alberta's inflation rate continued to decline from its mid-2022 peak but has risen at times along the way. Inflation fell to 3.7% in September, after having risen to 4.3% in August from 2.7% the month prior.<sup>6, 8, 11</sup>

## 2024 Economic Outlook

Looking ahead to 2024, the global economy is forecast to produce growth of 2.9% in 2024, down from 3.0% expected for 2023. These levels are well below long-term historical averages and restrictive macroeconomic policies enacted to decrease inflation rates continue to weigh on economies.

However, inflation has decreased and global headline inflation is expected to fall to 4.8% in 2024 from 5.9% in 2023. Significant downside risks to the global economy remain, such as high inflation persisting longer than initially expected, particularly if new economic shocks occur. Key potential external sources include escalation of the ongoing Russian invasion of Ukraine, conflict in the Middle East and extreme weather events.

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<sup>1</sup>World Economic Outlook (Update). International Monetary Fund. July 2023.

<sup>2</sup>Monetary Policy Report. Bank of Canada. July 2023.

<sup>3</sup>Economy at a Glance (United States – Monthly Data). U.S. Bureau of Labour Statistics. Website accessed Sep. 19, 2023.

<sup>4</sup>Spring 2023 Regional (Edmonton CMA) and City (Edmonton) Forecast Summary. City of Edmonton. July 2023.

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Consequently, financial market volatility could increase again. That said, upside possibilities include inflation abating faster than initially expected and consumer demand once again proving resilient in the face of economic headwinds. The primary focus of most central banks and national governments remains the elusive soft landing.<sup>1,2</sup>

In 2024, US inflation is forecasted to decrease, expected to come in at 2.7% for the year. This is an expected outcome of continued restrictive monetary policy, which also carries a consequence of slower expected growth. US real GDP is forecast to be only 1.0% for 2024. There remains a low probability of further Federal Open Market Committee (FOMC) rate hikes in late 2023 or early 2024 before rate cuts are expected to begin later in 2024. The US Dollar (USD) defied bears in 2023, appreciating against many other major currencies, but is expected to start weakening in 2024, with USD/CAD, currently at 1.38, forecast to fall to 1.29 by the end of 2024. Markets will also be responding to the upcoming presidential election in November 2024.<sup>8</sup>

At 0.7%, Canada's real GDP growth is also forecast to be lower in 2024 than recent years. Higher interest rates from previous BoC rate hikes are expected to weigh on household spending and business investment. However, inflation in Canada is expected to be lower next year, currently forecast to be 2.6%, which is only 0.6% above the BoC's midpoint target of 2.0% and well within its target range of 1.0% to 3.0%. The BoC has stated its primary objective is low and stable long-term rates of inflation, so the market generally expects the BoC will resume hiking rates and keep them higher for longer, if new economic data makes such actions necessary.

As higher interest rates work their way into the economy, it remains to be seen whether the Canadian economy can continue to be resilient. On average, Canadian households carry high levels of debt, which amplifies the impact of higher interest rates on discretionary spending. The delicate balance between the benefits of tamed inflation and the economic burdens of higher interest rates must be navigated by the BoC in pursuit of a soft landing. Once the BoC begins cutting its policy rate, short-term interest rates are expected to begin their decline to levels below long-term rates, eventually resulting in an upward-sloping (or "normal") yield curve.<sup>2,8</sup>

Recent forecasts from the Alberta government include a 2.9% real GDP growth rate and a 2.7% increase in employment resulting in a 6.0% unemployment rate for 2024. Alberta is expected to continue to attract migrants from other Canadian provinces if it can continue to offer relatively stronger employment opportunities paired with lower housing and living costs. Major metropolitan areas of Edmonton and Calgary are each expected to add over 20,000 residents in 2024. However, this population inflow is expected to somewhat limit expected wage increases, as employers can partially rely on increased labour supply to fill job vacancies rather than being forced to bid for preexisting labour via higher wages. This may result in an ongoing fading of the "Alberta advantage" (traditionally known as higher wages in Alberta than the national average). Key issues for the Alberta government in 2024 are likely to be living costs, health care, housing affordability, and public safety.<sup>5, 6, 7, 10</sup>

## 2023 Financial Highlights

In 2023, Servus had an outstanding year marked by record growth and solid financial results, despite challenging economic conditions. Our past performance and strong capital position enabled us to grow assets by almost \$2 billion resulting in \$20.3 billion in total assets. Servus was able to do so while offering market competitive interest rates and without altering our overall credit risk.

<sup>1</sup>World Economic Outlook (Update). International Monetary Fund. July 2023.

<sup>2</sup>Monetary Policy Report. Bank of Canada. July 2023.

<sup>3</sup>Economy at a Glance (United States – Monthly Data). U.S. Bureau of Labour Statistics. Website accessed Sep. 19, 2023.

<sup>4</sup>Spring 2023 Regional (Edmonton CMA) and City (Edmonton) Forecast Summary. City of Edmonton. July 2023.

<sup>5</sup>Mid-Year 2023 Economic Update. City of Edmonton. July 2023.

<sup>6</sup>2023-24 First Quarter Fiscal Update and Economic Statement. Government of Alberta. August 2023.

<sup>7</sup>Alberta Politics: Support tilts towards backing renewable moratorium, but worries over jobs, power prices linger. Angus Reid Institute. Sep. 14, 2023.

<sup>8</sup>Various economic and financial market data including estimates. Bloomberg. Data accessed on demand, as recently as publication date.

<sup>9</sup>Cruel Summer: Trudeau's Liberals trail opposition CPC by seven points at midway mark of federal election cycle. Angus Reid Institute. Aug. 14, 2023.

<sup>10</sup>The Alberta Advantage is melting away. Alberta Central. April 2023.

<sup>11</sup>Alberta Consumer Price Index. Alberta Government Economic Dashboard. Website accessed Oct. 27, 2023.

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As described earlier, Servus continues to support our members through challenging economic times while evolving our business to meet changing member demands. This evolution will ensure we continue to thrive in the competitive and changing financial services market. As mentioned, Servus has proposed a merger with connectFirst Credit Union. The combined financial strength of both credit unions, coupled with the larger collective size, could open the door to many new opportunities for the merged entity.

**Financial Position**

Servus had robust loan growth throughout all loan portfolios this year. The commercial loan portfolio grew substantially through a focus on existing member relationships while also building new member relationships and lines of business. This growth includes over \$160 million in commercial leases due to the acquisition of Stride Capital Corp., a successful equipment leasing company. The synergy of bringing this business into Servus has resulted in considerable growth in the leasing business since the mid-year acquisition.

Deposit growth was also very strong at \$1.4 billion since the prior year. Members continue to benefit from elevated interest rates on deposits, supporting their overall financial fitness.

Loan and deposit growth resulted in increased margin over the prior year. As a result of this strong margin, we were able to maintain a net income consistent with the prior year, despite pressure on the provision for credit losses and elevated operating expenses.

Servus's strong performance this year enabled us to share a record level of over \$68 million in Profit Share<sup>®</sup> with our members. This includes more than \$32 million in Profit Share<sup>®</sup> Rewards cash paid to members. Dividends paid in the form of shares to members increased to more than \$36 million due to the high interest rate environment.

**Regulatory Capital Performance and Requirements**

Servus is well capitalized with capital ratios considerably above the required levels. The decrease in capital this year was a result of the deliberate deployment of excess capital, as evidenced by the exceptional loan growth.

	2023	2022	Internal Policy Requirements	Minimum Supervisory Requirements
Capital as a % of total assets	8.7%	9.6%	7.5%	4.0%
Retained earnings to assets	5.7%	6.0%	4.0%	N/A
Capital as a % of risk weighted assets	14.8%	16.4%	13.5%	11.5%

**Margin**

Net interest income grew by \$40.0 million or 9.5% since the prior year due to the strong loan and deposit growth as well as elevated interest rates. This strong margin comes at a time when the industry is seeing an overall compression in margin. While the Alberta economic outlook remains positive, members are starting to feel the pressure of higher borrowing costs. Some members have experienced difficulty in qualifying for new loans while others had challenges meeting their payments. The full impact of the federal interest rate hikes will materialize as member loans mature and renew. Our employees continue to support members through these challenging economic times by helping them optimize their deposits and provide funding to help them feel good about their money.

**Other Income**

Other income increased by \$13.1 million as a result of the growth in the loan and deposit book, as well as continued focus on supporting members with their wealth and insurance needs.



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Our members continue to use their Servus Mastercards as a tool to assist them in monitoring and achieving their spending goals, while also receiving loyalty rewards and Profit Share<sup>®</sup> Rewards cash. Mastercard usage and revenues grew throughout the year.

The record levels of loan and deposit growth have resulted in increased services charges and loan fees as we continue to support members' needs for access to additional financing and deposit options.

Insurance income has also increased, aligned with our commitment to ensuring members have adequate protection against life's unexpected events.

### **Provision for Credit Losses**

The provision for credit losses has increased substantially this year because of rising prices, record high interest rates, and a cooling of the commercial real estate market after the global pandemic. Additionally, prior year provisions were well below the normal trend due to positive post pandemic impacts. The provision for credit losses increased to \$36.3 million this year, due in large part to two commercial real estate loans that were originated prior to the pandemic.

The expectation is that the provision will remain elevated in future years as the effects of the economy continue to strain household and business income for members. Loan growth has had a minimal impact on the provision for credit losses.

### **Operating Expenses**

Operating expenses are elevated from the prior year primarily in general expenses as we fuel growth and modernize technology to better support our members.

#### *General Expenses*

General expenses increased by \$19.5 million or 17.7% since the prior year.

Mastercard, loan, deposit, and wealth expenses account for much of the increase as these costs increase commensurate with loans, deposit, Mastercard, and wealth balances and activity.

Software costs continue to be elevated as we invest to modernize our technology to meet changing consumer demand.

Consulting fees are higher than the prior year, primarily due to increased legal fees relating to the proposed merger with connectFirst Credit Union.

#### *Personnel*

Personnel costs increased by \$3.7 million or 1.5% over the prior year. This was largely fuelled by an increase to salaries and benefits as we aligned our compensation to the market which saw higher than usual inflationary increases. We also stabilized our staff complement after the transformational changes last year. As a result, the increases in salaries and benefits were mostly offset by costs savings in both severance and recruitment expenses from the prior year's one-time costs.

#### *Impairment*

Impairment losses increased by \$1.8 million or 286.5% since prior year.

As we continue to review and improve technology, we periodically find that existing technology will not meet our evolving needs. As a result, we have recorded impairment losses of \$1.1 million in existing software. This impairment is a one-time cost with the benefit of saving on future costs to maintain and support this software.

Additionally, we had \$0.7 million in impairments on assets that were foreclosed or repossessed as market values declined below the carrying values on some properties.

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## 2023 Balanced Scorecard Results

Servus uses a balanced scorecard to measure the success of its strategic plans.

Objective	Measure	FY23 Target	FY23 Results	FY22 Results
Increase Member Financial Fitness	Difference in the Average Financial Fitness of Members vs that of Albertans	3.1%	5.7%	5.6%
Market Leading Growth	Member Growth	10,000	14,196	8,421
Easy To Do Business With	Enabling Growth Index	41.0%	43.0%	39.0%
Positive Leadership Climate	Leadership Climate Index	79.0%	79.0%	77.0%
Fast Moving Performance Culture	Culture Index	62.0%	69.0%	60.0%
Market Leading Growth	Assets Under Management <sup>1</sup>	25.365 Billion	25.665 Billion	23.224 Billion
Reduce Dependency on Interest Based Income	Other Income as Percentage of Average Assets <sup>2</sup>	0.795%	0.822%	0.824%
Leveraging Assets Profitability	Return on Assets (ROA) <sup>2</sup>	0.804%	0.616%	0.765%
Business Process Improvements for Effectiveness and Efficiency	Operating Efficiency Ratio <sup>2,3</sup>	71.882%	74.219%	74.556%

<sup>1</sup> The Assets Under Management (AUM) metric is new in FY23 and wasn't included in the FY22 Annual report. We have stated what the metric results were for FY22 for comparison, AUM includes both on balance sheet assets and wealth assets.

<sup>2</sup> Metrics are calculated before patronage and taxes.

<sup>3</sup>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 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.

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## **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.

## **Corporate Governance**

### **Board Mandate**

The Board of Directors ensures that Servus creates and maintains value for its 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 Alberta Central board.

This year, the board appointed two directors (Kelso Brennan and Jon Holt) and three members of Senior Management (Michelle Belland, Atul Varde and Randy Allarie) to the Board of Directors of Alberta Central. The board also hires and supervises the President and CEO, Ian Burns. In addition, the board has direct access to the VP Audit, Dharamvir Narula, and the Audit & Finance Committee have direct input into the hiring, performance and compensation of the VP Audit.

### **Board of Directors**

The Board of Directors is made up of 12 Servus members with established committees to help govern Servus effectively and manage risk. In 2023, the board revised its bylaws that were approved at the 2023 AGM by members, to place a tenure limit of 12 years for new board members. Existing board members are entitled to at least one more election, which could result in some having tenure in excess of 12 years.

Every year, the board holds an organizational meeting in March, following the AGM (which is part-way through the fiscal year) to elect the board, committee chairs, vice chairs, and to appoint each director to the committees. Most directors participate on at least two committees.

This year, we had four standing committees and one ad-hoc committee:

#### *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 six times.

#### *Nominating Committee*

Administers the board election process for the full Board of Directors. The Nominating Committee met four times and held one candidate and one new director orientation session.

#### *Joint Steering Committee (ad-hoc)*

This committee is made up of three Servus representatives and three connectFirst Credit Union representatives who provide guidance and direction in relation to governance matters associated with the proposed merger. This includes revision of bylaws, governance models, and review of the business case. The Joint Steering Committee met 20 times.



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**Governance**

The Board of Directors adheres to a high standard of governance. In particular, the board has a nominating committee that includes directors, non-director members and independent experts to provide a fair and transparent process to evaluate candidates for the election process.

Once elected, new 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, which include the Institute of Corporate Directors Designation and various Credit Union leadership designations, enable directors to further develop their knowledge and skills and, ultimately, enhance their performance on the board.

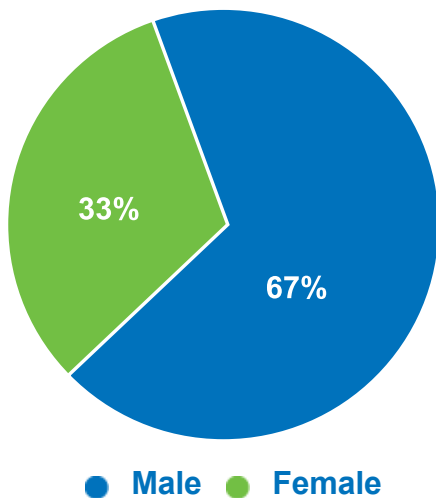
The board is committed to ethical, professional and lawful conduct. Directors work to ensure Servus meets all public, regulatory and member expectations in compliance with existing laws. Directors must adhere to fiduciary duties without conflict to the interests of Servus. This accountability comes before 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.

Additionally, the board has a robust process to annually evaluate board performance and conducts peer reviews. This work is aided by an independent consultant.

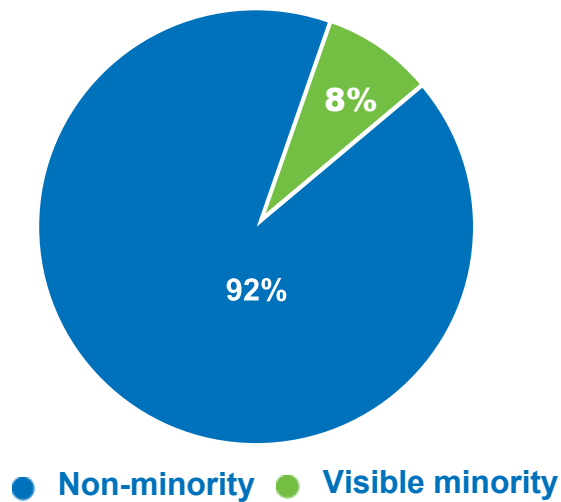
**Competencies & Attributes**

The board uses 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. As of October 31, 2023, diversity of the board is as follows:

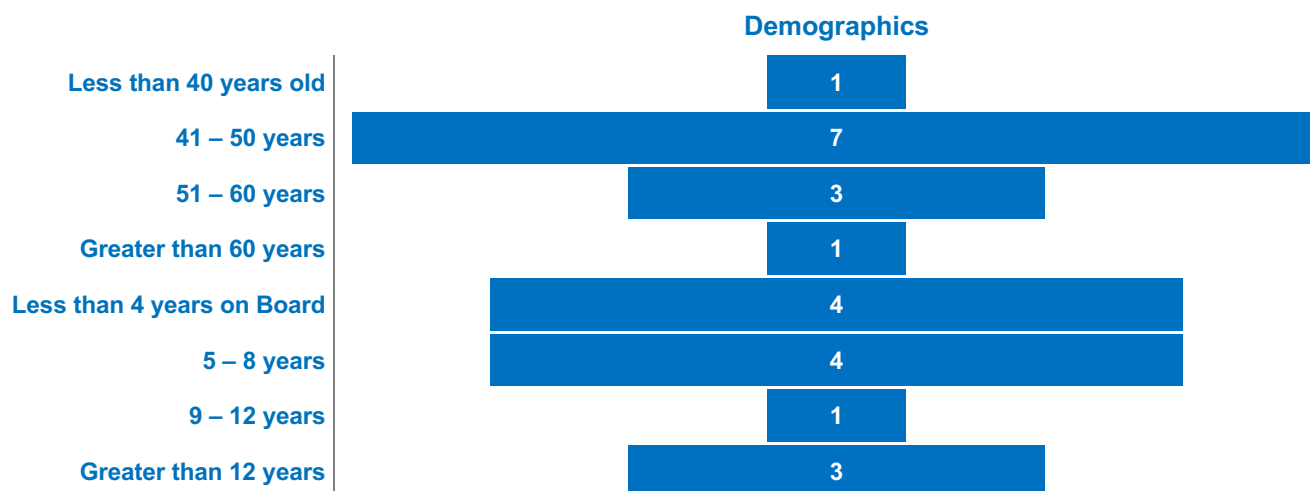
**Gender Diversity**



**Visibility Diversity**



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**Board of Directors – Attendance and Renumeration  
(November 1, 2022 – October 31, 2023)**

Directors <sup>1</sup>	Board Meetings	Committee Name	Committee	Total Renumeration <sup>2</sup>
<b>John Lamb</b> ICD.D, CCD, CUDA Board Chair (Nov 2022 – March 2023) Retired March 2023	6 of 6	Chair/Vice Chair/CEO	2	32,494
		Audit/Finance	1	
		Governance & Human Resources	3	
		Joint Steering Committee	20	
<b>Perry Dooley</b> B.Mgmt, ICD.D, CCD (Levels 1 & 2) Board Chair (March 2023 – Oct 2023)	18 of 18	Chair/Vice Chair/CEO	3	122,145
		Audit/Finance	7	
		Enterprise Risk Management	3	
		Governance & Human Resources	6	
		AB Central Briefing	2	
		Alberta Central Conference (days)	2	
		Joint Steering Committee	24	
<b>Danielle Ghai</b> B.A. Hon (English), LLB ICD.D, CCD Board Vice Chair (March 2023 – Oct 2023) Governance & HR Committee Chair	17 of 18	Chair/Vice Chair/CEO	5	89,654
		Audit/Finance	2	
		Governance & Human Resources	6	
		Nominating	4	
		AGM Committee	7	
<b>Amber Haworth</b> B.A.(Mgmt), MBA (Masters in Finance), ICD.D, GCB.D Audit & Finance Chair (March 2023 – Oct 2023)	18 of 18	Audit/Finance	5	57,150
		Enterprise Risk Management	1	
		Nominating	4	

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<b>Amy Corrigan</b> ICD.D, CUDA (Levels A, B & C underway) Governance & HR Vice Chair (Nov 2022 – March 2023)	17 of 18	Audit/Finance	1	54,687
		Enterprise Risk Management	1	
		Governance & Human Resources	6	
		Alberta Central Conference (days)	2	
<b>Darcy Mykytyshyn</b> B.Comm, ICD.D, ACCUD, CCD, CUDA, FCUIC Audit & Finance Vice Chair (Nov 2022 – Oct 2023)	17 of 18	Audit/Finance	7	56,209
		Enterprise Risk Management	1	
<b>Doug Bristow</b> B.Comm, CPA, CA, ICD.D, CUDA (Levels A, B underway) Audit & Finance Chair (Nov 2022 – March 2023)	17 of 18	Audit/Finance	7	53,841
		Enterprise Risk Management	3	
		AB Central Briefing	2	
<b>Greg Nakonechny</b> LLB, JD, MA (Political Science) Started on Board March 5, 2023	13 of 13	Audit/Finance	1	34,972
		Enterprise Risk Management	3	
		Board Orientation	1	
<b>Jon Holt</b> B.A. ICD.D, ACCUD	18 of 18	Audit/Finance	4	56,284
		Enterprise Risk Management	1	
		Governance & Human Resources	3	
		AB Central Briefing	3	
		Alberta Central Conference (days)	2	
<b>Kelso Brennan</b> Diploma (Computer Engineering Technology), EMBA, CCD, CUDA (Level A), PMP Governance & HR Committee Vice Chair (March 2023 – Oct 2023)	17 of 18	Audit/Finance	2	61,368
		Governance & Human Resources	6	
		AB Central Briefing	3	
		AGM Committee	7	
<b>Matthew Protti</b> B.A (Economics), MBA (Finance), ICD.D ERM Committee Chair (Nov 2022 – Oct 2023)	18 of 18	Audit/Finance	2	70,947
		Enterprise Risk Management	4	
		AB Central Briefing	2	
		Alberta Central Conference (days)	2	
		Joint Steering Committee	24	
<b>Omar Yaqub</b> BCompSC, MBA, Doctorate Of Sacred Letters (Hon) ERM Committee Vice Chair (March 2023 – Oct 2023)	17 of 18	Audit/Finance	2	53,532
		Enterprise Risk Management	4	
		Nominating	4	
<b>Shawn Eltom</b> CUDA (Level A; B & C underway) CCD (Levels 1 & 2)	18 of 18	Audit/Finance	5	61,515
		Enterprise Risk Management	1	
		Nominating	5	
		Alberta Central Conference (days)	2	

<sup>1</sup> Directors receive an honorarium and are reimbursed for all relevant expenses, including meeting and travel time per diem. The Honorariums are: \$30,000 per annum per directors; Board Chair additional \$10,000 per annum; Board Vice Chair additional \$5,000 per annum; Committee Chair additional \$4,000 per annum and Committee Vice Chair additional \$2,000 per annum. Director compensation is reviewed regularly by a third party to align with market peers.

<sup>2</sup> Honorarium plus per diem (includes CPP)

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*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*

## Risk Management

Servus uses 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 2023 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 CEO, Ian Burns, is responsible and accountable for risk management. Day-to-day monitoring and reporting on risk has been delegated to the Chief Risk Officer, Randy Allarie. 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.



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

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Traditional risk management solutions tend to focus on negative events and often depend on diligent corporate compliance programs. Servus proactively elevates material risk issues to senior management and the board. This helps 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, 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 decisions 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. Any breaches are reported to senior management and board committees, depending on the limit or guideline. Servus's Internal Audit department independently monitors the effectiveness of risk management policies, procedures and internal controls.

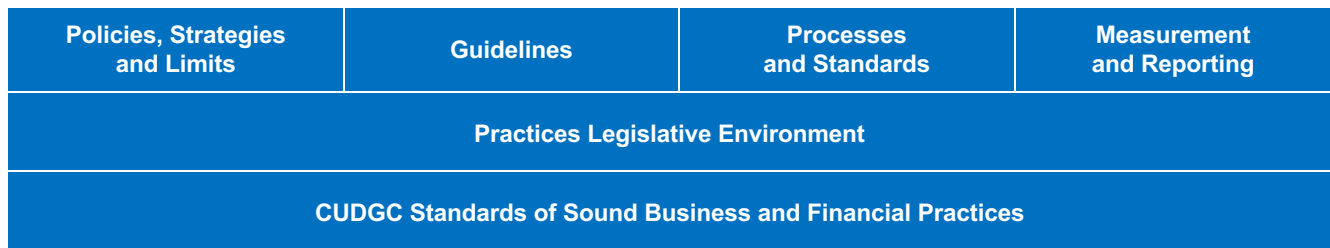


Figure 2: Servus Credit Union's Risk Management Framework

**Types of Risk**

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.

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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 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 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.

Servus manages credit risk through credit risk policies and limits to ensure broad diversification across Alberta and within various industries and product mixes. Risk is also managed through maximum limits on individual and connected accounts, participation in syndicated loans and minimum standards for loan quality. As well, 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 risk 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.

A sub-component of competitive risk is our reputational 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.

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**Management's Discussion and Analysis**  
For the year ended October 31, 2023

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. Additionally, 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 (strengths, weaknesses, opportunities, and threats) 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**

Servus monitors and reports to both the Management Risk Committee and the board Enterprise Risk Management Committee on risks that, although not fitting in any of the previous risk categories, may have an impact on 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.