servus® credit union

Management's Discussion and Analysis
Consolidated Financial Statements

For the year ended October 31, 2017

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SERVUS CREDIT UNION LTD.
Management's Discussion and Analysis
For the year ended October 31, 2017

Servus Credit Union Ltd.'s (Servus or the credit union) 2017 annual report consists of Management's Discussion and Analysis and the Consolidated Financial Statements for the year ended October 31, 2017, which details our credit union's financial and operating results. This document is available on request or online at servus.ca.

Note Regarding Forward-Looking Statements:

This annual report contains forward-looking statements about the operations, objectives and expected financial performance of Servus. These statements are subject to risks and uncertainties. Actual results may differ depending on a number of factors, including but not limited to legislative or regulatory changes, interest rates and general economic conditions in Alberta and Canada. These issues should be given careful consideration, and readers should not place undue reliance on Servus's forward-looking statements.

Member Banking

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

Currently, close to 370,000 members are served by nearly 2,200 hard-working and dedicated Servus employees from more than 100 locations in 59 communities across Alberta. Our offices in Red Deer, Lloydminster and Edmonton support the business and administrative needs of our members and employees.

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

- Garth Warner, President & Chief Executive Officer
- Yves Auger, Chief Information Officer
- Dan Bruinooge, Chief People & Corporate Services Officer
- Ian Glassford, Chief Financial Officer
- Darcy Peelar, Chief Credit, Compliance & Operational Support Officer
- Gail Stepanik-Keber, Chief Brand, Digital Banking & Corporate Social Responsibility Officer
- Caroline Ziober, Chief Operating Officer
- Taras Nohas, Vice President Strategy & Governance

Guiding Our Work

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

Our Vision

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

Our Noble Purpose

In 2017, we adopted a noble purpose — shaping member financial fitness — to guide our strategies, plans, projects, processes, activities and behavior going forward. We believe that taking this step is an opportunity for us to make a difference in the lives of our members and the health of our communities. People and communities that are financially fit feel in control of their financial future, are more resilient and can take advantage of opportunities.

Our Values

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

Our Brand Pillars

Our brand pillars are the expression of our image and values.

- Tailored expert advice: Giving advice that is based on your needs, not ours
- Members are owners: Sharing our profits with the people who make our success possible
- Committed community citizen: Helping to build lives in our communities, not just bank accounts

Servus is a co-operative financial institution committed to:

- Member ownership
- Exceptional service
- Local decision-making
- Profit Share®
- 100% deposit guarantee
- Community support

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

Recognizing Our Credit Union

Servus was honoured to receive a number of awards this year. We strongly believe in the work we do and appreciate the acknowledgements. During 2017, the credit union

- Received four awards at the Marketing Association of Credit Unions' (MACU) annual Achievement in Marketing Excellence (AIME) Awards Gala Dinner on May 9 in Halifax. Servus won the Digital Marketing AIME award for our summer loan campaign, the Content Marketing AIM (second place) award for The Business Circle campaign, an AIM award in the Radio category for our Profit Share Fuel the Economy ads and an AIM award in the Television category for our Servus Circle commercials.
- Requalified as a member of the Platinum Club of Canada's Best Managed Companies
- Received the Downtown Calgary Vitality Award for First Free Thursday Nights, a free community access program launched in partnership with the Glenbow Museum. The Vitality Awards are given to businesses that help to promote an attractive and livable downtown Calgary community.
- Was named runner up in the Financial/Banking category in the *Edmonton Journa*l 2017 Readers' Choice Awards
- Received a Gold Award for Best Financial Advice and a Bronze Award for Best Customer Service in the region in the *Innisfail Province* 2017 Readers' Choice Awards

Servus is most proud that credit unions were first again in Customer Service Excellence in Ipsos' Best Banking Awards.* Every year, Ipsos asks Canadians about their banking experience, and for the 13th year in a row, credit unions outperformed other Canadian financial institutions when it came to providing great service. Credit unions were also first in Branch Service Excellence for the 13th consecutive year. For us, it's always about putting our members first.

**Ipsos 2017 Best Banking Awards were based on ongoing quarterly Customer Service Index (CSI) survey results. The sample size for the total 2017 CSI program year ending with the August 2017 survey wave was 47,813 completed surveys.*

2017: In Review

A year ago, as Servus contemplated what 2017 could bring, we believed recovery in Alberta would be muted. We expected that Alberta would find its feet even if oil prices didn't rise, but we believed both business and consumers would still be cautious and strong growth would only come at the end of the year. On the national stage, our view was that inflation and the rate of economic growth would not be enough to push the Bank of Canada out of its belief that low rates were the solution to what ailed Canada's economy.

Instead, in 2017 Servus found that Alberta's economy experienced a strong rebound, with our business and retail members shifting fairly quickly to optimism and a stronger financial situation. The largest impact of this on the credit union was a provision for credit losses in 2017 that was $18.2 million lower than in 2016. Our forecast was incorrect, and that is great news for the credit union and our members.

Similarly, our expectation that the Bank of Canada would keep rates on hold for 2017 was proven wrong when it raised rates twice during the year. Although many borrowing members won't be happy with this development, our view is that it is good news overall. This interest rate environment has been punishing for savers, particularly for those who are now living on their investments. A small rise in interest rates results in borrowing rates that are still close to the lowest in history but makes a huge difference for our investing members. It also helps with the income of the credit union because it is very challenging to run a financial institution and pay deposit interest when some loans are earning less than 3%. This is another example of how an incorrect forecast for 2017 turned out to be good news for many members and for Servus.

Perhaps the most striking aspect of 2017 for Servus was what did not happen. The economy did not experience a financial crisis. Oil prices did not collapse. Interest rates did not plunge further from the lowest levels in history. No massive fires or floods or other natural disasters disrupted lives and business. For the first time in many years, there was no major negative development that Servus and Albertans had to work through. We are grateful, both in terms of the human impact and the financial impact on the credit union and our members. The positive environment was reflected in our results because, for the first time in many years, the credit union (as well as our business and retail membership) was able to focus solely on the financial fitness of members and allowed to keep the rewards of doing things well rather than having to offset unexpected negative developments. We, and so many other businesses and people across Alberta, had almost forgotten what it was like when in general things go well.

Combined with our sharper commitment to shaping the financial fitness of members, these factors helped our income before patronage and taxes increase by 13.5% ($16.8 million) in 2017 compared to 2016.

Because our members are also the owners of the credit union, our organizational financial fitness flows directly into the financial fitness of members and other people across Alberta. In 2017, Servus paid the people and companies who do business with us $50.6 million in profit sharing, an increase of $2.5 million over the previous year. At a time when a very small portion of the world appears to be gaining most from the economy, we're glad to share the wealth with average people and smaller businesses who need it. We appreciate the support of everyone who is part of the credit union (members and employees) who make this possible. Since the merger that created Servus Credit Union nine years ago, we have paid $419 million in profit sharing back to Albertans who do business with us.

The interdependence between the financial fitness of our members and the financial performance of the credit union is a fundamental part of being a co-operative, and it has been for years. We share our profits with the people who do business with us because they own the credit union. This can have a real impact on the financial fitness of our members and will continue to do so as long as we keep up our sound financial performance.

Consider the example of a member of the credit union with a new $350,000 mortgage when the new Servus was formed in 2008. The amounts below are the profits that Servus would have shared with the member over the years based on average mortgage rates. These results are typical of anyone who had similar business with the credit union over this time and show how being a credit union allows us to improve a member's financial fitness in a way that most other financial institutions cannot. At other financial institutions, those thousands of dollars go to the shareholders, not the customers.

Year	Patronage (cash) Received
2008	$ 792
2009	611
2010	578
2011	601
2012	579
2013	534
2014	491
2015	448
2016	414
2017	402
Total (so far)	$ 5,450

In addition to improving the financial fitness of our members by sharing dividends and patronage, every year Servus seeks to improve members' financial health and banking experience in numerous other ways. Examples of these efforts in 2017 included the following:

- Changing the way we process US dollar accounts to help members save money in fees
- Changing how we handle pre-authorized debits so that a void cheque is no longer required from the member
- Implementing new wire transfer processes to help reduce the risk of members becoming victims of fraud from outside parties

- Working with the federal government to improve information for members regarding RESP contribution limits
- Changing how we do business to eliminate the need for our business members to come back to our offices more than once for various transactions
- Adding First Canadian Title insurance to some commercial transactions to save members money and speed up processes for the member
- Improving the speed of funding mortgages by changing our mortgage pre-funding system
- Working with solicitors instructing on retail mortgage purchase deals to help address occasional last-minute rush appointments so that members can move in on time

Over the last few years, we've been focusing on developing our digital banking services to meet our members' rapidly changing demands for alternative ways to bank. For example, in the fall of 2016, we launched photo deposit on our mobile banking app to allow members to deposit cheques at any time using their mobile phone. Since then, members have used it to deposit more than 38,000 cheques, and its use is growing. We receive an average of 300 photo deposit transactions from our members every day. In 2017, we added Touch ID and password reset and change functions to our app. And in early 2018, we'll launch Apple Pay. Members with Apple iPhone or Watch devices will be able to pay for purchases by tapping their device.

Our work in 2017 did not stop there. During the year, Servus created a partnership with the Faculty of Science at the University of Alberta to work in areas such as artificial intelligence, data science, machine learning and natural languages processing. In total, Servus will be investing $1.6 million in this partnership. The work will include joint research projects, the creation of a new industrial research chair, opportunities for graduate student research applied to real-world challenges and professional development for Servus employees. We look forward to our members and the university realizing many benefits from this partnership.

Key Performance Drivers

Servus did not just meet all of its financial objectives in 2017. The credit union's balanced scorecard also showed strong results in member satisfaction and loyalty as well as employee engagement.

Objective	Measure	2017 Target	2017 Result	2016 Result
The value of being a member is clear and compelling	Member Satisfaction[1]	77% (+/-2.5%)	84.1%	81.9%
Servus members as advocates	Member Loyalty Index[1]	71% (+/- 2.5%)	78.7%	73.9%
High level employee engagement	Employee engagement	80% (+/- 1.0%)	83%	80%
Positive leadership climate	Leadership Climate Index	72% (+/- 1.0%)	73%	72%
Financial growth	Operating income[2]	$114 million	$126.5 million	$120.9 million
Reduced dependency on interest-based income	Other income growth as a percentage of average assets[2]	0.592%	0.636%	0.606%
Leveraging assets profitably	Return on assets[2]	0.762%	0.843%	0.834%
Business process improvements for effectiveness and efficiency	Operating efficiency ratio[2,3]	67.608%	64.485%	66.922%
	Operating expenses as a percentage of average assets[2]	2.1007%	1.960%	2.06%

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

Financial Highlights

Balance Sheet

Net loan growth in 2017 was $452.0 million, or an increase of 3.4% over 2016. Servus's loan portfolio did very well through the recession, and we foresee a great deal of opportunity lending to existing and new members in 2018. Our business and retail members are in good financial shape, and we believe that this is going to support even greater loan growth in the next year.

Deposits grew $266.8 million, or 2.2%, over the past year. This level of growth was less than the credit union had planned for 2017 but was an improvement over the 0.5% growth rate of 2016. We expect to see an even better year for deposit growth in 2018. The low interest rate environment continues to make deposit growth difficult, and Servus has been focusing its efforts on gaining smaller deposits from typical Albertans rather than pursuing large deposits from corporations or brokers. Although this approach requires more work and is a slower way to grow, it provides far more stability. It also suits us better as a credit union because the average person is the kind of member we were created to serve.

Capital Ratios

Servus's capital position has improved every year since its creation in 2008, including the recent recession years. The board and management recognize that a co-operative is a generational trust and take their responsibility for ensuring the long-term viability and safety of member deposits very seriously. Building a strong capital position that can survive unexpected developments is one way this responsibility is fulfilled.

	2017	2016	2017 Internal Policy Requirement	2017 Minimum Supervisory Requirement
Capital to assets	8.8%	8.6%	4.0%	4.0%
Retained earnings to assets	5.0%	4.7%	4.0%	N/A
Capital as a % of risk-weighted assets	15.70%	15.05%	13.50%	11.50%

Revenues

The low interest rate environment continued to weigh on interest-based revenue for Servus in 2017. Margin (the difference between what we earn from loans and pay on deposits) fell by $2.4 million relative to 2016. The increase in interest rates in the second half of 2017 should help the credit union stabilize margin revenue in 2018.

Servus has been working for many years to reduce its dependence on interest-based income. We have made a significant investment in our wealth services area, which provides members with financial planning, investment advice and a broad range of support such as trust and estate services. Members have found great value in these offerings, bringing their investment business to the credit union and growing the investment assets that are under management by 13.6% to $3.3 billion. As a result, our income in this area rose by almost 9.5% ($4.9 million) last year.

The provision for credit losses in 2017 was $13.3 million on a loan book of $13.7 billion. This was $18.2 million lower than in 2016 and is returning to normal levels. Our data to date indicates that the negative effects of the recession on member loans are fading fast.

Expenses

Personnel costs in 2017 were $11.7 million (6.4%) higher than the year before. This follows a period of three years when the credit union managed to offset increases in cost of living and employee career progression with greater operating efficiencies. The stronger financial results in 2017 put the credit union in a position to increase staffing in certain areas and to provide employees with a higher level of incentive pay compared to prior years. The credit union believes that employees as well as members should benefit from improved financial performance.

A significant change in expenses during 2017 was a reduction in the amount paid for the deposit guarantee that protects all credit union deposits. The Credit Union Deposit Guarantee Corporation (CUDGC) charges credit unions for the deposit guarantee protection and maintains a Deposit Guarantee Fund. With the fund size target achieved in 2016, CUDGC reduced the rate charged to credit unions by 44%. CUDGC considers many factors when determining the assessment rate, and credit unions are notified in advance of any rate changes. This reduction in rate charged for the deposit guarantee (from 16 to 9 basis points of deposits and borrowings) has reduced our expense for the deposit guarantee protection by more than $8 million in 2017.

In total, the credit union's expenses rose by $6.1 million, or 2.0%, in 2017. Members may see further but modest increases in expenses during 2018 as we apply more of our improved income to technology enhancements and new programs to help improve members' financial fitness.

Operating and Net Income

In 2016, Servus demonstrated one of the strengths of the co-operative model — that we are not pushed to make decisions that are damaging to our members, employees or communities to shore up our short-term financial performance. This allowed us to avoid the waves of layoffs that we saw at major banks, for example.

Fiscal 2017 gave us the opportunity to illustrate another strength of operating as a co-operative. When things go well, we only need to make enough money to ensure our long-term stability and viability. Beyond that, we are able to do things like increase the profits we return to our members by $2.5 million (bringing the total amount shared this year to $50.6 million), provide employees with more incentive pay and make larger investments in technology security and services.

Net income (after dividends, patronage and taxes) increased by 15.4% in 2017, and we believe that this strong performance (and associated benefits for our members and community) will continue through 2018.

Helping Our Communities

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

This past year, the credit union worked with our not-for-profit member organizations to foster resiliency in our communities. For members and the general public, we've expanded our offerings with partners of reduced-fee or no-fee community access opportunities in small and large centers across the province. Examples include free skiing nights; public skating and swimming events; and museum, cinema and performing arts access nights. These programs help families participate in local activities and connect them to their communities for a reasonable cost. At the same time, these partnerships benefit not-for-profit organizations when local residents who might not otherwise attend are exposed to events and venues. This past year, we also renewed a major partnership with the Edmonton Heritage Festival Society and will be its presenting sponsor in the years to come. And we took on the naming rights for two major facilities — the Servus Arena in Red Deer and the Servus Community Arena in Bow Island — as well as completing our capital commitment to the Barrhead Aquatic Centre. Each of these facilities provides free public access once a month courtesy of Servus.

Social Impact

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

- Supported over 1,035 community organizations with $2 million in financial contributions
- Provided $20,200 in scholarships for students attending Alberta post-secondary schools
- Provided $10,000 to support youth attendance at Alberta Community and Co-operative Association's co-op leadership camp
- Supported the development of credit unions internationally by hosting a credit union manager from Uganda in September and by supporting two employees' work with the Canadian Cooperative Association (CCA) in Ghana, contributing towards poverty alleviation and coaching credit unions

- Offered initiatives aimed at raising employee awareness of seniors' financial abuse, financial fitness, mental health, bullying and other causes
- Used a variety of data and information security safeguards to protect personal information against loss or theft
- Provided members with information to counteract fraudulent attempts to gain access to their funds

Environmental Impact

Over the past several years, Servus has taken a number of steps to improve its environmental performance. We have identified the following key environmental impacts, measured these impacts and set targets to improve: greenhouse gas emissions, energy and paper consumption, and materials consumption and waste. In 2017, Servus slightly increased its carbon footprint per member,[1] but this remains 2.2% below our 2015 baseline. Total GHG emissions increased marginally over last year[2] and are now at our 2020 target of 4% below our 2015 baseline. In 2017, we increased the volume of paper used by 0.9%. Despite losing ground this year, we are committed to reducing paper use by 15% from the baseline (2015) by 2020. We continue to recycle 100% of our electronic waste (e.g., computers, monitors, laptops, cell phones, etc.).

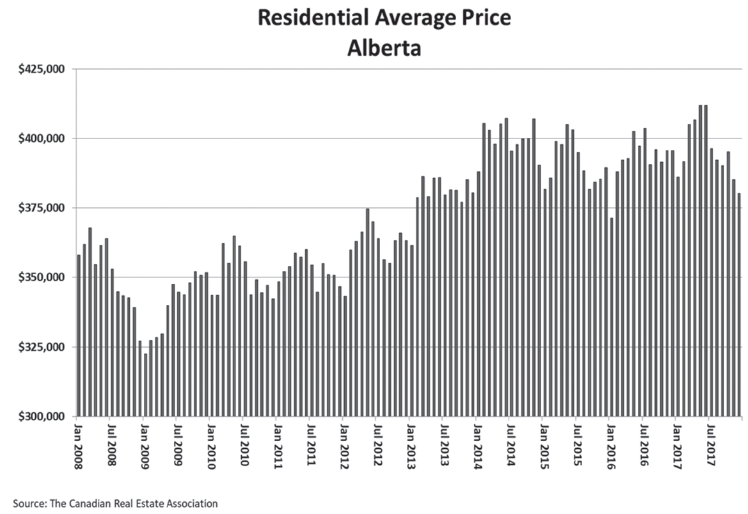
The Outlook for 2018

We believe that Servus's prospects for 2018 are quite good. The credit union managed through the recession very well and is in a position to continue to be successful as Alberta's economy continues to improve.

As in 2017, we are not basing our forecast for 2018 on a strong recovery in energy prices. We believe that average prices will be better than last year but not excessively so. Servus does, however, have concerns about the prices that will be realized for Alberta energy and believes these will continue to be a challenge through 2018. Our experience of Alberta over the 80 years that we have been part of the economy is that after the initial shock from a sharp decline in energy prices, the people and businesses of the province move forward, regardless of whether energy prices remain flat or rise only slightly. Barring large negative surprises, everything we see from the communities we serve in Alberta points to continued strength in our economy in 2018 and that in turn will contribute to greater financial success for Servus over the year.

The financial markets are expecting the Bank of Canada to continue with rate increases through 2018. Although we do not have a good understanding of how the Bank of Canada is making its rate decisions, we believe that the Canadian economy and dollar will not provide the case for as many increases in interest rates as the market currently expects for the year. Trade concerns likely will not help either. In contrast, we continue to believe that US rates will move more than Canadian rates next year. The direction for both nations certainly looks to be higher; the question is how much and how soon.

High levels of consumer debt and higher than historic housing prices relative to income do cause the credit union some concern, and the increase in Canadian interest rates adds somewhat to those concerns. Overall, though, we do not foresee significant problems with housing prices or people's ability to manage their debt loads in Alberta during 2018. We note that over the past four years, the average home price has not changed a great deal in the province while wages have been gradually rising, increasing people's ability to afford housing or manage their mortgages.



[1] Due to a modest increase in GHG emissions coupled with a similar decline in membership
[2] Mostly due to an increase in natural gas use

The new mortgage rules taking effect in January of 2018 are expected to reduce some of the demand for housing, but Servus does not expect this to have a large effect on prices or the economy. Some borrowers may choose to wait until their income or down payment allows them to qualify for their dream house, but we believe more will opt to purchase a less expensive house that they can qualify for eventually. Because residential mortgage lending makes up almost two-thirds of Servus's loan business, we recognize that a much more negative reaction to the impact of new mortgage rules or a sharp correction in housing prices in cities like Toronto or Vancouver could cause more damage than we expect in 2018; however, we view the more reasonable and affordable housing in Alberta as one cushion against these risks.

In aggregate, Servus is planning for a good year in 2018, which in turn is supporting increased investments next year in a number of areas that members should appreciate.

Setting the Direction: 2018–2020 Strategic Plan

In 2017, Servus developed and began implementing a noble purpose: shaping member financial fitness. This is the next step in our evolution as a credit union and will require us to better understand our members' needs and goals while simultaneously reducing back-end costs so we can make additional strategic investments that will help further improve our members' financial health.

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

- Members have clearly defined TRUE financial goals, which are documented, and are making progress towards these goals. (A TRUE goal includes the goal, the gap, the solution and follow-up actions specifying how the member will reach the goal.)
- Servus members are more financially fit compared to the provincial average.
- Servus will attract and retain members in our target segments because of our focus on financial fitness.
- Servus will be more profitable as a result of our focus on financial fitness.

We will achieve our noble purpose and its associated outcomes through our strategic priorities. These are the key overarching and enterprise-wide areas of primary focus in which the organization must excel in order to succeed. Our strategic priorities for FY2018–2020 are as follows:

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

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

Balanced Scorecard

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

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

At Servus, we evaluate our success by measuring both financial and non-financial outcomes, giving a balanced view in fulfilling our vision, achieving our noble purpose and living our values. We're guided towards those outcomes by five imperatives, each of which has clear objectives and specific measures and targets.

Member Experience

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

Employee Experience

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

Financial Performance

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

Business Processes

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

Governance and Credit Union Relations

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

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

A Framework for Success

Corporate Governance

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

Board Mandate

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

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

Board Structure

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

There are four board committees:

Audit & Finance Committee

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

Enterprise Risk Management Committee

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

Governance & Human Resources Committee

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

Nominating Committee

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

Position Descriptions

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

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

Orientation and Education

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

These and other learning opportunities enable the directors to further develop their knowledge and skills and enhance their performance on the board. A board competency and skills matrix was developed and introduced for use by the board in 2012 to help determine training needs, and it continues to be updated.

Ethical Conduct

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

Nomination

Servus holds an annual election to fill vacancies on the board. Member-owners elect directors to a four-year term, at the end of which they may run for re-election. In 2017, the board brought forward a by-law change to extend director terms to four years, which was approved. This change will help to better recognize the investment of time and effort required to bring directors up to speed with the complexities of the financial industry, Servus and the credit union system. Servus has no limit on the number of terms a director may serve.

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

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

Candidates must also undergo a criminal record check.

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

Director Remuneration

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

Honorarium

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

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

Remuneration and Attendance November 1, 2016 – October 31, 2017

Director	Board Meetings*	Committee Name	Committee Meetings	Total Remuneration: Honorarium + per diem (includes CPP)
John Lamb (Board Chair)	11 of 11	Chair/Vice/CEO Audit/Finance ERM Governance & HR Central Briefing Community Council CUCA AGM (days)	11 5 5 10 4 1 3	$ 74,064
Penny Reeves (Nov 2016 – May 2017)	4 of 11	Chair/Vice/CEO Audit/Finance ERM	4 1 1	$ 26,833
Alison Starke (Nov 2016 – Feb 2017)	4 of 11	Audit/Finance Governance & HR (C)	1 5	$ 24,241
Amy Corrigan (Vice Chair)	11 of 11	Chair/Vice/CEO Audit/Finance ERM Governance & HR Nominating Community Council CUCA AGM (days)	7 2 2 4 10 1 3	$ 67,343
Darcy Mykytyshyn	10 of 11	Audit/Finance	7	$ 46,634
Dianne Brown	11 of 11	Audit/Finance Governance & HR Nominating Committee Community Council CUCA AGM (days) AGM Committee	2 11 5 7 3 2	$ 59,421
Doug Bristow	11 of 11	Audit/Finance ERM Community Council CUCA AGM (days)	8 1 2 1	$ 53,474
Doug Hastings	11 of 11	Audit/Finance ERM Community Council Governance & HR Nominating Committee CUCA AGM (days)	3 4 3 4 4 3	$ 59,945

Iris Evans	11 of 11	Audit/Finance Central Briefing ERM Nominating Governance & HR Community Council CUCA AGM (days) Other CU AGM AGM Committee	2 6 4 4 4 3 3 1 4	$ 54,017
Jon Holt	11 of 11	Audit/Finance ERM Governance & HR Central briefing CUCA AGM (days) Community Council	2 2 5 4 3 4	$ 53,124
Ken Cameron	11 of 11	Audit/Finance ERM Nominating Community Council Other CU AGM CUCA AGM (days)	7 5 5 5 1 3	$ 60,569
Perry Dooley (March – October 2017)	6 of 11	Audit/Finance Governance & HR Nominating Community Council CUCA AGM (days)	1 5 5 1 3	$ 44,261
Simon Neigum	11 of 11	Audit/Finance Governance & HR Central briefing Community Council CUCA AGM (days) Other CU AGM Nominating	8 1 4 5 3 1 5	$ 64,156

- Board meetings include Servus's Annual General Meeting (AGM), annual board planning session, joint meeting with the CUDGC board and ad hoc board teleconferences.
- Standing board committees include the Audit & Finance, Governance & Human Resources, Enterprise Risk Management and Nominating Committees.
- The board of director chair is an ex officio member of all committees.
- Board members are assigned to one or two committees at the organizational meeting in March but can attend any committee meeting. Committee assignments can cross two fiscal years. One board member sits on the Audit & Finance and Enterprise Risk Management Committees as a crossover member.
- The Nominating Committee members are not in the final year of their term. Candidate interviews were held October 30–November 1, 2017, in addition to a candidate orientation meeting.
- (C) stands for committee chair. Because the chair may change in March of each year, more than one committee chair may appear in the table.
- AGM 2017 and AGM 2018 denote Servus's board of directors' representative on the management AGM Committee.
- Central briefing means the board member is on the CUCA board, and there may be overlap as appointments are made for the period April 1–March 30.
- Chair/Vice/CEO refers to briefing meetings.
- There are 34 community councils around the province.

Performance Evaluation

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

Board and Committee Meetings

The board of directors held 10 regular board meetings last year and a two-and-a-half-day planning session in April. In addition, the Audit & Finance Committee met 8 times, the Enterprise Risk Management Committee met 6 times and the Governance & Human Resources Committee met 10 times. The Nominating Committee met 4 times in 2017 and conducted three days of candidate interviews. Additional ad hoc committee meetings were held as required.

Directors participated in the following:

- Servus's Annual General Meeting in March 2017
- The Credit Union Central of Alberta Conference and Annual General Meeting in April 2017
- The Canadian Credit Union Association Annual General Meeting and Conference in May 2017
- The World Credit Union Conference in July 2017

Risk Management

Servus has a risk management structure that enables it to adapt to changes in economic and operational environments. The following is an overview of this structure and the types of risk it is typically exposed to. (See Note 30 on Financial Risk Management in the 2017 Consolidated Financial Statements for more details.)

Enterprise Risk Management

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

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

Servus believes that effective enterprise risk management is a journey and not a destination. And the program continues to grow, evolve and adapt. The framework provides processes for identifying risks and assessing the likelihood of their occurrence and potential impact. The framework is also used to establish policies, procedures and controls to ensure that risk is 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 are delegated to the senior vice president of Risk and Audit. Four management committees — the Asset Liability Committee, the Management Credit Committee, the Management Corporate Social Responsibility Committee and the Management Risk Committee — identify, assess and monitor risks through their work. Ownership of key risks is delegated to the appropriate Executive Leadership Team member.

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

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

Practices and the Legislative Environment

Policies, Strategies and Limits

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

Guidelines

Guidelines are the directives provided to implement the policies. Generally, these describe types of risks and exposures, whether geographic or industry related.

Processes and Standards

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

Measurement and Reporting

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

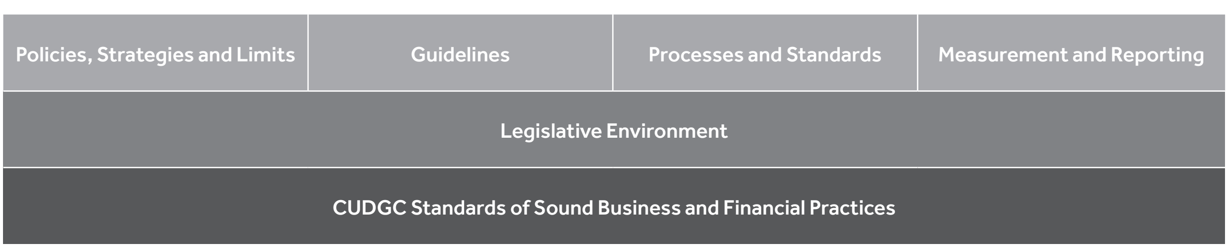


Figure 2: Servus Credit Union's Risk Management Framework

Types of Risk

Servus groups its major risks into 10 categories:

1. Information Technology Risk

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

2. Liquidity Risk

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

Servus's liquidity policies include the measurement and forecasting of cash flows, a stable base of core deposits from retail and commercial customers, limits on single deposits and sources of deposits and the monitoring of wholesale demand and term deposits. The Servus liquidity management strategy includes the daily monitoring of expected cash inflows and outflows, as well as the tracking and forecasting of the liquidity position of our credit union on a forward 90-day rolling basis.

3. Interest Rate and Market Risk

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

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

4. Credit Risk

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

5. Competitive Risk

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

6. Reputational Risk

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

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

7. Strategic Risk

Strategic risk is the risk that Servus makes inappropriate strategic choices or is unable to effectively implement its strategies or 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.

8. Regulatory and Compliance Risk

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

9. Operational Risk

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

10. Emerging Risks

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

Servus Credit Union Ltd.
Consolidated Financial Statements

For the year ended October 31, 2017

SERVUS CREDIT UNION LTD.
Consolidated Financial Statements

Management's Responsibility for Financial Reporting

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

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

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

Garth Warner,
President and Chief Executive Officer

Ian Glassford,
Chief Financial Officer

Deloitte.

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Independent Auditor's Report

To the Members of
Servus Credit Union Ltd.

We have audited the accompanying consolidated financial statements of Servus Credit Union Ltd., which comprise the consolidated statement of financial position as at October 31, 2017, and the consolidated statement of income and comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Servus Credit Union Ltd. as at October 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants
January 18, 2018

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

	Notes	October 31 2017	October 31 2016
Assets			
Cash and cash equivalents	5	**$ 104,118**	$ 102,002
Investments	6	**1,181,454**	1,042,788
Members' loans	7	**13,675,636**	13,223,624
Assets held for sale	10	**9,024**	12,749
Other assets	11	**18,256**	15,870
Property and equipment	12	**147,127**	155,611
Investment property	13	**7,169**	7,100
Derivative financial assets	14	**31,695**	28,128
Investment in associate	15	**172,900**	176,382
Intangible assets	16	**43,078**	47,356
Total assets		**15,390,457**	14,811,610
Liabilities			
Borrowings	18	**100,000**	76,007
Secured borrowings	19	**1,093,288**	922,215
Members' deposits	20	**12,560,063**	12,293,207
Trade payables and other liabilities	21	**173,565**	144,241
Income taxes payable		**894**	4,698
Derivative financial liabilities	14	**13,006**	6,508
Investment shares	23	**415**	421
Defined benefit plans	22	**7,219**	7,630
Deferred income tax liabilities	17	**17,894**	18,043
Total liabilities		**13,966,344**	13,472,970
Equity			
Share capital	23	**659,599**	639,063
Retained earnings		**763,636**	697,883
Accumulated other comprehensive (loss) income		**(144)**	683
Total equity attributable to members of the Credit Union		**1,423,091**	1,337,629
Non-controlling interest		**1,022**	1,011
Total equity		**1,424,113**	1,338,640
Total liabilities and equity		**$ 15,390,457**	$ 14,811,610

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

Approved on behalf of the Board of Directors

John Lamb,
Chair, Board of Directors

Doug Bristow,
Chair, Audit and Finance Committee

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

	Notes	Year ended October 31 2017	Year ended October 31 2016
Interest income			
Members' loans		$ 472,736	$ 468,053
Investments	24	5,694	7,869
Total interest income		478,430	475,922
Interest expense			
Members' deposits		104,058	102,951
Other interest expense	25	18,615	14,837
Total interest expense		122,673	117,788
Net interest income		355,757	358,134
Other income	26	97,300	88,281
Share of profits from associate	15	8,233	10,162
Net interest income and other income		461,290	456,577
Provision for credit losses	8	13,297	31,502
Net interest income after provision for credit losses		447,993	425,075
Operating expenses			
Personnel		196,487	184,752
General		49,354	48,616
Occupancy		20,755	20,462
Member security		13,333	21,809
Depreciation	12,13	13,872	15,689
Organization		5,056	4,900
Impairment of assets	10,12,15,16	1,844	609
Amortization	16	6,496	4,236
Total operating expenses		307,197	301,073
Income before patronage allocation to members and income taxes		140,796	124,002
Patronage allocation to members	23	27,772	26,146
Income before income taxes		113,024	97,856
Income taxes	17	30,571	26,408
Net income		$ 82,453	$ 71,448
Other comprehensive loss		(827)	(630)
Total comprehensive income		$ 81,626	$ 70,818
Other comprehensive loss for the year, net of tax:			
Actuarial gain (loss) on defined benefit pension plans (1) (net of income tax expense (recovery) of $118, 2016 - $(158))	22	320	(451)
Share of other comprehensive loss from associate			
Actuarial gain (loss) on defined benefit pension plans (1) (net of income tax expense (recovery) of $8, 2016 - $(75))		23	(215)
Unrealized (loss) gain and reclassification adjustments on available for sale securities (net of income tax (recovery) expense of $(434), 2016 - $13) (2)		(1,170)	36
Total other comprehensive loss		$ (827)	$ (630)
Total comprehensive income			
Comprehensive income attributable to members		81,615	70,809
Comprehensive income attributable to non-controlling interest		11	9
Total comprehensive income		$ 81,626	$ 70,818

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

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

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

	Notes	Common Shares	Investment Shares	Retained Earnings	Accumulated Other Comp-rehensive Income	Non-controlling Interest	Total Equity
Balance at October 31, 2015		$ 494,685	$ 114,792	$ 642,675	$ 1,313	$ 1,002	$1,254,467
Changes in equity							
Issues of share capital	23	39,019	–	–	–	–	39,019
Redemption of share capital	23	(27,413)	(3,975)	–	–	–	(31,388)
Dividends on share capital	23	16,956	4,999	–	–	–	21,955
Net income		–	–	71,439	–	9	71,448
Dividend (net of income tax recovery of $5,724)	23	–	–	(16,231)	–	–	(16,231)
Actuarial losses on defined benefit plans	22	–	–	–	(451)	–	(451)
Share of other comprehensive loss from associate	15	–	–	–	(179)	–	(179)
Balance at October 31, 2016		$ 523,247	$ 115,816	$ 697,883	$ 683	$ 1,011	$1,338,640

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

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

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

		Year ended October 31 2017		Year ended October 31 2016
Cash flows from (used in) operating activities				
Net income	**$**	**82,453**	$	71,448
Adjustments for non-cash items and others				
Net interest income		**(355,757)**		(358,134)
Provision for credit losses		**13,297**		31,502
Share of profits from investment in associate		**(8,233)**		(10,162)
Depreciation and amortization		**20,368**		19,925
Impairment of assets		**1,844**		609
Gain on assets held for sale		**(1,848)**		(655)
Loss (gain) on property and equipment		**522**		(226)
Loss on intangible assets		**179**		–
Loss on investment property		**14**		–
Income taxes		**30,571**		26,408
Adjustments for net changes in operating assets and liabilities				
Change in members' loans		**(462,763)**		(553,264)
Change in members' deposits		**271,967**		56,397
Change in assets held for sale		**(18,532)**		(17,325)
Change in derivatives		**2,931**		313
Net change in other assets, provisions, and trade payables and other liabilities		**27,276**		(5,238)
Income taxes received and (paid), net		**(34,524)**		(25,144)
Interest received		**475,498**		476,653
Interest paid		**(127,791)**		(113,811)
Net cash used in operating activities		**(82,528)**		(400,704)
Cash flows from (used in) investing activities				
Additions to intangible assets		**(3,021)**		(4,098)
Additions to property and equipment, and investment property		**(5,798)**		(4,157)
Proceeds on disposal of property and equipment, and investment property		**264**		646
Proceeds on disposal of assets held for sale		**23,135**		12,450
Purchase of Alberta Central shares		**–**		(1,472)
Distributions from Alberta Central		**9,424**		8,675
Investments		**(138,280)**		(98,866)
Net cash used in investing activities		**(114,276)**		(86,822)
Cash flows from (used in) financing activities				
Term loans and lines of credit		**24,000**		76,000
Advances of secured borrowing		**539,592**		453,573
Repayment of secured borrowing		**(368,519)**		(141,789)
Tax recovery on dividend paid		**6,131**		5,724
Shares issued		**29,683**		39,019
Shares redeemed		**(31,967)**		(31,388)
Net cash from financing activities		**198,920**		401,139
Increase (decrease) in cash and cash equivalents		**2,116**		(86,387)
Cash and cash equivalents, beginning of year		**102,002**		188,389
Cash and cash equivalents, end of year	**$**	**104,118**	$	102,002

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

1. REPORTING ENTITY

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

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

2. BASIS OF PRESENTATION

These Consolidated Financial Statements (financial statements) of the Credit Union have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and use the accounting policies the Credit Union adopted for its financial statements for the year ended October 31, 2017. 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, 2017, were authorized for issue by the Board of Directors on January 18, 2018.

Basis of Measurement

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

Functional Currency

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

Use of Estimates, Assumptions and Judgments

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

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

Critical Judgments

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

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

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

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

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

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

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

Subsidiaries

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

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

Investment in Associate

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments — Recognition and Measurement

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

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

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

Classification	Loans and Receivables	Available For Sale (AFS) - no active market	Fair Value Through Profit or Loss (FVTPL)	Financial Liabilities
Measurement	Amortized Cost	Cost	Fair Value	Amortized Cost
Cash and cash equivalents	▼			
Securitized mortgage pools	▼			
Investment in associate		▼		
Investments – other		▼		
Investments – Alberta Central term deposits	▼			
Members' loans	▼			
Accounts receivable	▼			
Members' deposits				▼
Trade payables and other liabilities				▼
Borrowings and secured borrowings				▼
Derivatives - interest rate swaps			▼	
Derivatives - equity linked options			▼	
Derivatives - embedded purchase option			▼	
Investment shares			▼	

Financial Instruments at Fair Value Through Profit or Loss

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Loans and Receivables

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

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

Available-for-Sale Financial Assets

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

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

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

Other Financial Liabilities

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

Financial Instruments — Derecognition

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

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

Derivative Financial Instruments

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

The Credit Union enters into derivative contracts 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. The Credit Union uses quotations based on current observable market data to estimate the fair value of all derivative financial instruments on the consolidated statement of financial position.

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

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

Estimated Fair Value

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

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

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

The Credit Union's financial instruments designated as FVTPL lack an available trading market and are intended to be held to maturity; therefore, fair values are based on estimates using present value and other valuation techniques. These techniques are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates, which reflect varying degrees of risk. Due to this estimation process and the need to use judgment, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The level in the fair value hierarchy within which the financial assets or liabilities are categorized is based on the lowest level of input that is significant to the fair value measurement. Financial assets and liabilities held at fair value through profit or loss are classified in their entirety in only one of three levels:

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

Impairment of Financial Assets

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

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

Members' Loans

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Other Financial Assets

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

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

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

Assets Held for Sale

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Property and Equipment

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

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

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

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

The estimated useful lives are as follows:

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

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

Investment Property

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

Computer software and development costs	5 to 15 years

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

Impairment of Non-Financial Assets

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

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of its fair value less costs to sell and value in use. Fair value is estimated based on recent transactions for similar assets within the same industry. Value in use is estimated based on discounted net cash flows from continuing use and the ultimate disposal of an asset.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

The Credit Union as a Lessee

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

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

The Credit Union as a Lessor

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

Provisions

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

Employee Benefits

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

Short-Term Employee Benefits

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

Termination Benefits

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

Post-Employment Benefits

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Credit Union and the revenue can be reliably measured. The principal sources of revenue are interest income, account service charges, and commissions and fees income.

Interest Income and Expense

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

Account Service Charges

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Commissions and Fees

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

Patronage Allocation to Members

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

Income Taxes

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

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

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

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

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

Financial Guarantees

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

Foreign Currencies

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

4. FUTURE ACCOUNTING CHANGES

The Credit Union has assessed that the standards effective November 1, 2017, will not have a significant impact on the financial statements. At this time, the impact to the Credit Union of the standards effective November 1, 2018, and later is currently being assessed.

- **Effective for the Credit Union — November 1, 2017**
  - **IAS 7 Statement of Cash Flows**

    In January 2016, the IASB issued amendments to IAS 7, which will require specific disclosures for movements in certain liabilities on the statement of cash flows.
  - **IFRS 12 Disclosure of Interest in Other Entities**

    In December 2016, the IASB issued amendments to IFRS 12 by specifying the disclosure requirements applied to an entity's interests, as outlined in the standard, that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5, Non-current Assets Held for Sale and Discontinued Operations.
- **Effective for the Credit Union — November 1, 2018**
  - **IFRS 15 Revenue from Contracts with Customers**

    In May 2014, the IASB Issued IFRS 15, which establishes principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard provides a single, principles-based five-step model for revenue recognition to be applied to all contracts with customers. In April 2016 the IASB issued amendments to IFRS 15 to clarify the underlying principles of the standard in regards to the identification of performance obligations, application guidance on principal versus agent and licences of intellectual property.
  - **IFRS 9 Financial Instruments**

    In July 2014, the IASB issued the complete version of IFRS 9, first issued in November 2009, as part of its plan to replace IAS 39 Financial Instruments: Recognition and Measurement.

    Classification and Measurement
    IFRS 9 introduces a principles-based approach to the classification of financial assets based on an entity's business model and the nature of the cash flows of the asset. All financial assets, including hybrid contracts, are measured at FVTPL, fair value through other comprehensive income (FVTOCI) or amortized cost. For financial liabilities, the classification and measurement remain largely unchanged from IAS 39, except for when the fair value option is elected.

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

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

4. FUTURE ACCOUNTING CHANGES (CONTINUED)

Hedging
IFRS 9 also introduces a new model designed to enhance disloscures to better reflect hedge accounting in the financial statements. This significant overhaul better aligns the accounting treatment with risk management activities.

- **IFRS 2 Share-based Payment**

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

- **IAS 40 Investment Property**

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

- **Effective for the Credit Union — November 1, 2019**
  - **IFRS 16 Leases**

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

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

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

- **Effective for the Credit Union — November 1, 2020**
  - **IFRS 9 Financial Instruments**

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

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

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

(Canadian $ thousands, except per share amounts)

5. CASH AND CASH EQUIVALENTS

		As at October 31 2017		As at October 31 2016
Cash on hand	**$**	**15,720**	$	16,067
ATM cash		**10,110**		9,846
Foreign exchange cash		**588**		587
Cash with Alberta Central		**78,680**		76,584
Cheques and items in transit		**(980)**		(1,082)
Total	**$**	**104,118**	$	102,002

6. INVESTMENTS

		As at October 31 2017		As at October 31 2016
Term deposits with Alberta Central	**$**	**1,178,579**	$	1,040,134
Other		**794**		959
		1,179,373		1,041,093
Accrued interest		**2,081**		1,695
Total	**$**	**1,181,454**	$	1,042,788

7. MEMBERS' LOANS

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

		Gross Amount		Specific Allowance		Collective Allowance		Net Amount		Impaired Loans
As at October 31, 2016										
Residential mortgages	$	7,649,120	$	421	$	1,292	$	7,647,407	$	1,904
Commercial mortgages and loans		4,221,809		13,456		6,477		4,201,876		34,723
Consumer loans		997,226		2,990		12,633		981,603		6,526
Agricultural mortgages and loans		356,566		71		17		356,478		613
		13,224,721		16,938		20,419		13,187,364		43,766
Accrued interest		38,518		1,470		788		36,260		–
Total	$	13,263,239	$	18,408	$	21,207	$	13,223,624	$	43,766

(Canadian $ thousands, except per share amounts)

8. ALLOWANCE FOR CREDIT LOSSES

Specific Allowance

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

	Residential	Commercial	Consumer	Agricultural	Interest	Total
As at October 31, 2015	$ 344	$ 15,926	$ 2,544	$ 135	$ 1,601	$ 20,550
Recoveries of previous loan write-offs	2	214	1,185	–	–	1,401
Allowance charged to net income	1,788	9,742	10,026	201	1,079	22,836
	2,134	25,882	13,755	336	2,680	44,787
Loans written off	(1,713)	(12,426)	(10,765)	(265)	(1,210)	(26,379)
As at October 31, 2016	$ 421	$ 13,456	$ 2,990	$ 71	$ 1,470	$ 18,408

Collective Allowance

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

	Residential	Commercial	Consumer	Agricultural	Interest	Total
As at October 31, 2015	$ 935	$ 5,576	$ 5,346	$ 2	$ 682	$ 12,541
Allowance charged to net income	357	901	7,287	15	106	8,666
As at October 31, 2016	$ 1,292	$ 6,477	$ 12,633	$ 17	$ 788	$ 21,207

(Canadian $ thousands, except per share amounts)

9. CREDIT QUALITY OF MEMBERS' LOANS

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

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

As at October 31, 2016	Residential	Commercial	Consumer	Agricultural	Total
Risk Categories					
1 to 5 – Satisfactory risk	$ –	$ 4,165,297	$ –	$ 355,491	$ 4,520,788
6 – Watch list	–	9,918	–	461	10,379
8 – Impaired risk – performing	–	1,876	–	–	1,876
7 and 9 – Unacceptable/impaired risk – non-performing	–	9,995	–	1	9,996
Loans without risk rating	7,647,216	–	990,700	–	8,637,916
Loans not impaired	7,647,216	4,187,086	990,700	355,953	13,180,955
Loans specifically impaired	1,904	34,723	6,526	613	43,766
Sub Total	7,649,120	4,221,809	997,226	356,566	13,224,721
Accrued interest	12,005	13,237	9,306	3,970	38,518
Total	$ 7,661,125	$ 4,235,046	$ 1,006,532	$ 360,536	$ 13,263,239

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

(Canadian $ thousands, except per share amounts)

9. CREDIT QUALITY OF MEMBERS' LOANS (CONTINUED)

Loans past due, as at October 31, 2017

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

Loans past due, as at October 31, 2016

	Residential	Commercial	Consumer	Agricultural	Total
Past due up to 29 days	$ 132,555	$ 22,479	$ 23,192	$ 2,833	$ 181,059
Past due 30 – 59 days	41,309	30,862	7,096	2,070	81,337
Past due 60 – 89 days	17,147	4,296	3,471	442	25,356
Past due over 90 days	24,604	39,402	7,330	2,098	73,434
Total	$ 215,615	$ 97,039	$ 41,089	$ 7,443	$ 361,186

Loans Past Due but Not Impaired

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

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

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

Loans past due but not impaired, as at October 31, 2016

	Residential	Commercial	Consumer	Agricultural	Total
Past due up to 29 days	$ 132,555	$ 4,797	$ 22,837	$ 2,225	$ 162,414
Past due 30 – 59 days	41,309	28,703	6,958	2,070	79,040
Past due 60 – 89 days	17,147	3,374	3,277	442	24,240
Past due over 90 days	22,700	25,442	1,491	2,093	51,726
Total	$ 213,711	$ 62,316	$ 34,563	$ 6,830	$ 317,420

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

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

(Canadian $ thousands, except per share amounts)

9. CREDIT QUALITY OF MEMBERS' LOANS (CONTINUED)

	As at October 31 2017	As at October 31 2016
Loans by security:		
Insured loans and mortgages	**$ 2,759,164**	$ 3,119,042
Secured by mortgage	**8,900,893**	8,335,657
Secured by other	**1,238,908**	1,105,190
Unsecured	**813,165**	703,350
Total	**$ 13,712,130**	$ 13,263,239

10. ASSETS HELD FOR SALE

	As at October 31 2017	As at October 31 2016
Foreclosed property	**$ 8,378**	$ 11,543
Other land and buildings	**646**	1,206
Total	**$ 9,024**	$ 12,749

Management has concluded that an impairment on assets held for sale was required to be recorded by the Credit Union. An impairment loss of $501 (2016 – $492) has been recorded in the consolidated statement of income and comprehensive income.

11. OTHER ASSETS

	As at October 31 2017	As at October 31 2016
Accounts receivable	**$ 6,668**	$ 7,189
Prepaid items	**11,588**	8,681
Total	**$ 18,256**	$ 15,870

(Canadian $ thousands, except per share amounts)

12. PROPERTY AND EQUIPMENT

	Land	Buildings	Leasehold Improve-ment	Furniture, Office Equipment and Vehicles	Computer Equipment	Total
Cost						
Balance as at October 31, 2015	$ 25,971	$ 155,157	$ 45,459	$ 32,101	$ 20,267	$ 278,955
Additions	1	1,071	1,005	511	1,494	4,082
Impairment losses	–	(75)	(42)	–	–	(117)
Disposals	(5)	(172)	(1,090)	(2,075)	(1,099)	(4,441)
Transfer to assets held for sale	(63)	(1,649)	–	(15)	–	(1,727)
Transfer to investment property	(522)	(2,392)	–	–	–	(2,914)
Other transfers	(2)	61	(50)	31	(56)	(16)
Balance as at October 31, 2016	$ 25,380	$ 152,001	$ 45,282	$ 30,553	$ 20,606	$ 273,822
Additions	329	1,751	198	1,423	2,097	5,798
Impairment losses	–	(10)	–	–	–	(10)
Disposals	–	(543)	(1,904)	(2,605)	(3,053)	(8,105)
Transfer to assets held for sale	–	–	–	(2)	–	(2)
Transfer to investment property	–	(277)	–	–	–	(277)
Other transfers	–	1,389	(1,389)	(218)	218	–
Balance as at October 31, 2017	**$ 25,709**	**$ 154,311**	**$ 42,187**	**$ 29,151**	**$ 19,868**	**$ 271,226**
Accumulated depreciation						
Balance as at October 31, 2015	$ –	$ 51,545	$ 25,681	$ 21,298	$ 9,819	$ 108,343
Depreciation	–	6,009	2,865	2,949	3,397	15,220
Disposals	–	(94)	(978)	(2,017)	(932)	(4,021)
Transfer to assets held for sale	–	(626)	–	(9)	–	(635)
Transfer to investment property	–	(680)	–	–	–	(680)
Other transfers	–	7	–	24	(47)	(16)
Balance as at October 31, 2016	$ –	$ 56,161	$ 27,568	$ 22,245	$ 12,237	$ 118,211
Depreciation	–	5,175	2,545	2,465	3,217	13,402
Disposals	–	(299)	(1,813)	(2,553)	(2,871)	(7,536)
Transfer to assets held for sale	–	–	–	(4)	–	(4)
Transfer from investment property	–	26	–	–	–	26
Other transfers	–	878	(878)	(399)	399	–
Balance as at October 31, 2017	**$ –**	**$ 61,941**	**$ 27,422**	**$ 21,754**	**$ 12,982**	**$ 124,099**
Net Book Value						
At October 31, 2016	25,380	95,840	17,714	8,308	8,369	155,611
At October 31, 2017	**25,709**	**92,370**	**14,765**	**7,397**	**6,886**	**147,127**

Management has concluded that an impairment on property and equipment was required to be recorded by the Credit Union. An impairment loss of $10 (2016 – $117) has been recorded in the consolidated statement of income and comprehensive income.

(Canadian $ thousands, except per share amounts)

13. INVESTMENT PROPERTY

	Land	Buildings	Total
Cost			
Balance as at October 31, 2015	$ 1,313	$ 8,894	$ 10,207
Additions	–	75	75
Transfer from property and equipment	522	2,392	2,914
Transfer to held for sale	–	(263)	(263)
Balance as at October 31, 2016	1,835	11,098	12,933
Transfer from property and equipment	–	277	277
Disposals	–	(231)	(231)
Transfer from held for sale	–	494	494
Balance as at October 31, 2017	**$ 1,835**	**$ 11,638**	**$ 13,473**
Accumulated depreciation			
Balance as at October 31, 2015	$ –	$ 4,718	$ 4,718
Depreciation	–	469	469
Transfer from property and equipment	–	680	680
Transfer to held for sale	–	(34)	(34)
Balance as at October 31, 2016	–	5,833	5,833
Depreciation	–	470	470
Transfer to property and equipment	–	(26)	(26)
Transfer from held for sale	–	27	27
Balance as at October 31, 2017	**$ –**	**$ 6,304**	**$ 6,304**
Net Book Value			
At October 31, 2016	1,835	5,265	7,100
At October 31, 2017	**1,835**	**5,334**	**7,169**

During the year, a condo unit that was originally acquired to provide housing in the town of Slave Lake was subsequently sold for a loss of $14, which was included in general operating expenses in the consolidated statement of income and comprehensive income.

The fair value of investment property held is $13,502 (2016 – $13,756) and is determined by external valuation on a rotating basis every three years. A valuation was performed in 2017.

Income Related To Investment Property	**October 31 2017**	October 31 2016
Rental income	**$ 1,407**	$ 1,455
Direct operating expense from property generating rental income	**1,129**	1,081
Total	**$ 278**	$ 374

Future rental payments receivable are as follows:

	October 31 2017	October 31 2016
Less than 1 year	**$ 800**	$ 981
Between 1 and 5 years	**1,555**	2,276
More than 5 years	**45**	89
Total	**$ 2,400**	$ 3,346

(Canadian $ thousands, except per share amounts)

14. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

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

As at October 31, 2016	Equity-linked Options	Embedded Purchase Option	Interest Rate Swaps	Total
Derivative Financial Assets				
Gross amounts of financial assets before statement of financial position offsetting	$ –	$ –	$ 1,853	$ 1,853
Gross amounts of financial liabilities before statement of financial position offsetting	–	–	(1,545)	(1,545)
Net amount of financial assets presented on the statement of financial position	–	–	308	308
Amounts not subject to enforceable netting arrangements	6,558	21,262	–	27,820
Total	$ 6,558	$ 21,262	$ 308	$ 28,128
Derivative Financial Liability amounts not subject to enforceable netting arrangements	$ 6,508	$ –	$ –	$ 6,508

(Canadian $ thousands, except per share amounts)

14. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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

	1-3 months	3-12 months	1-5 years	As at October 31 2017	As at October 31 2016
Interest rate swaps receive fixed, pay floating	$ –	$ –	$ 1,000,000	$ 1,000,000	$ 200,000
Equity linked option	–	17,515	63,100	80,615	71,781
Total	$ –	$ 17,515	$ 1,063,100	$ 1,080,615	$ 271,781

Equity-linked Options

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

Embedded Purchase Option

The Credit Union entered into an arrangement with a third party where the third party acts as an agent to offer credit cards to its members. The agreement automatically renews annually unless either party provides notice to terminate. The agreement contains an option for the Credit Union to acquire the underlying consumer loans associated with the credit cards. The exercise price is linked to the book value of the loans, and notice of intent to exercise the option must be provided one year prior to the termination of the agreement. Notice to exercise the option was given, and the agreement will be terminated in 2017. A transition period to acquire the underlying consumer loans is being negotiated to complete termination and transfer in 2018.

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.

(Canadian $ thousands, except per share amounts)

15. INVESTMENT IN ASSOCIATE

Alberta Central, the central banking facility, service bureau and trade association for Alberta credit unions, is the only entity classified as investment in associate for the reporting period. The proportion of ownership interest held by the Credit Union as at October 31, 2017, is 57.8% (2016 – 58.4%).

	As at October 31 2017	As at October 31 2016
Alberta Central		
Opening balance	$ 175,664	$ 172,834
Adjustment for OCI	–	189
Purchase of additional shares	–	1,472
Share of profits	8,233	10,085
Share of other comprehensive income	(1,573)	(241)
Distributions	(9,424)	(8,675)
Total	$ 172,900	$ 175,664

Financial Information for Alberta Central	As at October 31 2017 (Unaudited)	As at October 31 2016 (Unaudited)
Assets	$ 3,034,724	$ 2,813,508
Liabilities	2,727,092	2,503,933
Revenues	33,395	30,171
Income before distributions	10,484	16,175
Other comprehensive loss	(2,718)	(410)

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

Alberta Central	As at October 31 2017	As at October 31 2016
Cash	$ 78,680	$ 76,584
Term deposits	1,178,579	1,040,134
Accrued interest on term deposits	2,081	1,692
Other assets	7	–
Trade payables and other liabilities	570	–

	2017	2016
Interest income term deposits	$ 9,400	$ 7,295
Interest expense on term loans	586	1,753
Data processing, memberships fees and other	12,407	11,751

The Credit Union currently owns 32.1% (2016 – 32.1%) of Crelogix Credit Group Inc. (Crelogix) and there is an outstanding debt payable to the Credit Union of $4,372 (2016 - $3,480) which included a conversion feature resulting in the control of Crelogix effective November 15, 2016. During the year the loan agreement was amended to remove the conversion feature resulting in the loss of control.

In July 2017, Crelogix entered into receivership and is being wound up. Since then, Crelogix management has resigned and all operations have ceased. Minimal staff have been kept on to assist the receiver in managing the administration of loan payment. The Credit Union has impaired the value of the investment in Crelogix shares (excluding outstanding debt) from a value of $718 on October 31, 2016, to nil.

(Canadian $ thousands, except per share amounts)

16. INTANGIBLE ASSETS

	Purchased Software	Internally Developed Software	Computer Software under Development	Total
Cost				
Balance as at October 31, 2015	$ 2,461	$ 61,169	$ 5,756	$ 69,386
Additions	270	–	3,828	4,098
Disposals	(110)	–	–	(110)
Transfers	25	7,172	(7,172)	25
Transfer to prepaid items	–	(525)	–	(525)
Balance as at October 31, 2016	2,646	67,816	2,412	72,874
Adjustments	–	(9)	–	(9)
Additions	334	–	2,687	3,021
Disposals	–	(185)	–	(185)
Impairment	–	–	(615)	(615)
Transfers	–	1,887	(1,887)	–
Balance as at October 31, 2017	**$ 2,980**	**$ 69,509**	**$ 2,597**	**$ 75,086**
Accumulated amortization				
Balance as at October 31, 2015	$ 689	$ 20,678	$ –	$ 21,367
Amortization	463	3,773	–	4,236
Disposals	(110)	–	–	(110)
Transfers	25	–	–	25
Balance as at October 31, 2016	1,067	24,451	–	25,518
Amortization	471	6,025	–	6,496
Disposals	–	(6)	–	(6)
Balance as at October 31, 2017	**$ 1,538**	**$ 30,470**	**$ –**	**$ 32,008**
Net Book Value				
At October 31, 2016	1,579	43,365	2,412	47,356
At October 31, 2017	**1,442**	**39,039**	**2,597**	**43,078**

Management has concluded that an impairment on intangible assets was required to be recorded by the Credit Union. An impairment loss of $615 (2016 – $0) has been recorded in the consolidated statement of income and comprehensive income.

(Canadian $ thousands, except per share amounts)

17. INCOME TAXES

(a) Income tax expense

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

Income Tax Expense		2017		2016
Current tax expense				
Based on current year taxable income	$	30,652	$	26,717
Adjustments for (over) provision in prior periods		(240)		(628)
Sub Total		30,412		26,089
Deferred tax expense				
Origination and reversal of temporary differences		(159)		(1,314)
Adjustments for under-provision in prior periods		318		1,447
Change in tax rate		–		186
Sub Total		159		319
Total	$	30,571	$	26,408

(b) Reconciliation of effective tax rate:

		2017			2016	
Income before income taxes	$	113,024		$	97,856	
Income tax expense based on statutory rate		30,370	26.87%		25,507	26.06%
Effect on non-deductible expenses		135	0.12%		164	0.17%
Change in tax rate		–	0.00%		186	0.19%
Adjustments for under-provision in prior periods		78	0.07%		819	0.84%
Other		(12)	(0.01%)		(268)	(0.27%)
Total income tax expense	$	30,571	27.05%	$	26,408	26.99%

(c) Deferred tax assets and liabilities

The movement in deferred tax assets and liabilities is:

Deferred Tax Assets and Liabilities		As at October 31 2016		Recognized in Net Income		Recognized in OCI		As at October 31 2017
Subsidiary deferred tax asset:								
Subsidiary property and equipment	$	–	$	–	$	–	$	–
Subsidiary non-capital losses		–		–		–		–
Total		–		–		–		–
Servus deferred tax liability:								
Member loans		6,251		(2,540)		–		3,711
Property and equipment		(13,144)		898		–		(12,246)
Derivative instruments		(5,904)		960		–		(4,944)
Investment in associate		(9,135)		536		426		(8,173)
Employee benefits		2,244		(177)		(118)		1,949
Other payables		1,645		164		–		1,809
Non-capital losses		–		–		–		–
Total		(18,043)		(159)		308		(17,894)
Net consolidated deferred tax	$	(18,043)	$	(159)	$	308	$	(17,894)

(Canadian $ thousands, except per share amounts)

17. INCOME TAXES (CONTINUED)

	As at October 31 2015	Recognized in Net Income	Recognized in OCI	As at October 31 2016
Subsidiary deferred tax asset:				
Subsidiary property and equipment	$ (29)	$ 29	$ –	$ –
Subsidiary non-capital losses	113	(113)	–	–
Total	84	(84)	–	–
Servus deferred tax liability:				
Member loans	3,847	2,404	–	6,251
Property and equipment	(12,178)	(966)	–	(13,144)
Derivative instruments	(5,657)	(247)	–	(5,904)
Investment in associate	(8,585)	(612)	62	(9,135)
Employee benefits	2,251	(165)	158	2,244
Other payables	2,110	(465)	–	1,645
Non-capital losses	184	(184)	–	–
Total	(18,028)	(235)	220	(18,043)
Net consolidated deferred tax	$ (17,944)	$ (319)	$ 220	$ (18,043)

18. BORROWINGS

Maturity Date	Interest Rate	As at October 31 2017	As at October 31 2016
November 3, 2017	1.7612%	$ 100,000	$ –
November 24, 2016	1.4300%	–	26,000
November 10, 2016	1.4300%	–	50,000
Subtotal		100,000	76,000
Accrued interest on borrowings		–	7
Total		$ 100,000	$ 76,007

Alberta Central

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

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

(Canadian $ thousands, except per share amounts)

18. BORROWINGS (CONTINUED)

Caisse Centrale Desjardins

The Credit Union has a credit facility agreement with Caisse Central Desjardins (CCD). The facility consists of a 364-day revolving term loan available in Canadian dollars renewable annually, with a maximum credit available of $75,000.

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

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

Canadian Imperial Bank of Commerce

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

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

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

19. SECURED BORROWINGS

Secured Borrowings	Maturity Date	Interest Rate		As at October 31 2017		As at October 31 2016
MBS	Nov 5, 2017 to Sep 1, 2022	0.2400% to 1.9772%	$	**957,064**	$	772,816
CMB	Mar 1, 2020 to Jun 1, 2021	1.0210% to 1.3190%		**136,224**		149,399
Total			$	**1,093,288**	$	922,215

The Credit Union periodically enters into asset transfer agreements with other third parties, which include securitization of residential mortgages.

The Credit Union reviews transfer agreements in order to determine whether the transfers of financial assets should result in all or a portion of the transferred mortgages being derecognized from its consolidated statement of financial position. The derecognition requirements include an assessment of whether the Credit Union's rights to contractual cash flows have expired or have been transferred or whether an obligation has been undertaken by the Credit Union to pay the cash flows collected on the underlying transferred assets over to a third party. The derecognition standards also include an assessment of whether substantially all the risks and rewards of ownership have been transferred.

The Credit Union has determined that an amount of $539,592 (2016 – $453,573) raised from securitization transactions during the year should be accounted for as a secured borrowing since the Credit Union did not transfer substantially all of the risks and rewards of ownership, including principal prepayment, interest rate and credit risk, of the mortgages in the securitization transaction. The carrying amount as at October 31, 2017, of the associated residential mortgages held as security is $1,125,397 (2016 – $943,671). 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 borrowings.

(Canadian $ thousands, except per share amounts)

20. MEMBERS' DEPOSITS

		As at October 31 2017		As at October 31 2016
Demand accounts	$	**6,693,231**	$	6,643,870
Term deposits		**4,081,799**		3,875,825
Registered plans		**1,738,346**		1,722,273
Other deposits		**12,026**		11,467
		12,525,402		12,253,435
Accrued interest		**34,661**		39,772
Total	$	**12,560,063**	$	12,293,207

21. TRADE PAYABLES AND OTHER LIABILITIES

		As at October 31 2017		As at October 31 2016
Cheques and other items in transit	$	**22,976**	$	22,473
Accounts payable		**117,453**		91,314
Dividend and patronage to members		**27,873**		26,103
Deferred income		**5,194**		4,225
Provisions		**69**		126
Total	$	**173,565**	$	144,241

22. EMPLOYEE BENEFITS

		2017		2016
Short-term employee benefits	$	**185,640**	$	174,712
Post-employment benefits		**8,855**		8,655
Termination benefits		**763**		542
Total	$	**195,258**	$	183,909

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		2017		2016
Net benefit plan cost in net income								
Current service cost	$	161	$	–	$	161	$	159
Interest cost		155		56		211		233
Total		316		56		372		392
Defined contribution registered retirement savings plan – Credit Union contributions		8,897		–		8,897		8,707
Total		9,213		56		9,269		9,099
Actuarial loss (gain) recognized in other comprehensive income		613		(624)		(11)		427
Total	$	9,826	$	(568)	$	9,258	$	9,526

(Canadian $ thousands, except per share amounts)

22. EMPLOYEE BENEFITS (CONTINUED)

Accrued Benefit Obligation and Liability	**Pension Plans**	**Other Benefit Plans**	**As at October 31 2017**	As at October 31 2016
Unfunded accrued benefit obligation				
Balance, beginning of year	**$ 5,442**	**$ 2,188**	**$ 7,630**	$ 6,995
Current service cost	**161**	**–**	**161**	159
Interest cost	**155**	**56**	**211**	233
Benefits paid	**(247)**	**(98)**	**(345)**	(366)
Actuarial (gain) loss	**(267)**	**(171)**	**(438)**	609
Balance, end of year	**$ 5,244**	**$ 1,975**	**$ 7,219**	$ 7,630

	Pension Plans	**Other Benefit Plans**	**2017**	2016
Included in personnel expense				
Current service cost	**$ 161**	**$ –**	**$ 161**	$ 159
Interest cost	**155**	**56**	**211**	233
Benefits paid	**(247)**	**(98)**	**(345)**	(366)
Total	**$ 69**	**$ (42)**	**$ 27**	$ 26

	Pension Plans		**Other Benefit Plans**	
	2017	2016	**2017**	2016
Discount rate	**3.0% to 3.6%**	2.3% to 2.9%	**3.50%**	2.60%

Changes in the assumed health care cost trend rates for the post-retirement benefit plans for the year ended October 31, 2017, are:

Effect on inflation:	1% increase	1% decrease
Accrued benefit obligation	$ 24	$ 192

Experience adjustments	**2017**	2016
Accrued benefit obligation and plan deficit	**$ 7,219**	$ 7,630
Experience (gain) loss	**(438)**	609
Tax expense (recovery)	**118**	(158)
Net experience (gain) loss	**(320)**	451

Defined benefit contributions expected to be paid in 2018	**$ 345**

(Canadian $ thousands, except per share amounts)

23. SHARE CAPITAL

Common Shares

Common shares have the following characteristics:

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

Series A to G Investment Shares

Series A to G Investment Shares have the following characteristics:

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

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

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

(Canadian $ thousands, except per share amounts)

23. SHARE CAPITAL (CONTINUED)

	Issued and Outstanding as at October 31 2015	Issued	Redeemed and Transferred	Dividends Declared	Issued and Outstanding as at October 31 2016	Investment Share Liability Portion
Common shares total	$ 494,685	$ 39,019	$ (27,413)	$ 16,956	$ 523,247	
Investment shares						
Series A	51,013	–	(2,023)	2,202	51,192	–
Series B	7,559	–	(196)	331	7,694	–
Series C	20,427	–	(616)	890	20,701	–
Series D	30,640	–	(770)	1,342	31,212	–
Series E	4,164	–	(317)	192	4,039	421
Series F	595	–	(29)	25	591	–
Series G	394	–	(24)	17	387	–
Investment shares total	$ 114,792	$ –	$ (3,975)	$ 4,999	$ 115,816	$ 421
Share capital total	$ 609,477	$ 39,019	$ (31,388)	$ 21,955	$ 639,063	$ –

Total patronage and dividends paid in cash or shares	**2017**	2016
Patronage allocation to members in cash	$ **27,772**	$ 26,146
Common share dividend	**17,733**	16,956
Investment share dividend	**5,087**	4,999
	$ **50,592**	$ 48,101

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 (%)	**2017**	2016
Common share	**3.50%**	3.50%
Investment share	**4.50%**	4.50%

24. INVESTMENT INCOME

	2017	2016
Investment income on loans and receivables other than members' loans	$ **9,721**	$ 7,590
Unrealized loss on derivative instruments	**(4,741)**	(542)
Realized gain on derivative instruments	**714**	821
Total	$ **5,694**	$ 7,869

25. OTHER INTEREST EXPENSE

	2017	2016
Term loans	$ **1,500**	$ 1,450
Line of credit	**479**	925
Secured borrowing	**16,636**	12,462
Total	$ **18,615**	$ 14,837

(Canadian $ thousands, except per share amounts)

26. OTHER INCOME

		2017		2016
Commissions and fees	$	**55,739**	$	50,884
Account service charges		**33,591**		30,907
Foreign exchange income		**3,507**		3,146
Operating lease income		**1,195**		1,312
Other		**3,268**		2,032
Total	$	**97,300**	$	88,281

27. CAPITAL MANAGEMENT

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

Objectives, Policy and Processes

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

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

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

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

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

Regulatory Capital

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

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

(Canadian $ thousands, except per share amounts)

27. CAPITAL MANAGEMENT (CONTINUED)

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

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

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

As at October 31, 2017, and 2016, the Credit Union's capital ratio was greater than the minimum requirement. Regulatory and internal management capital requirements are noted in the chart below.

	As at October 31 2017	As At October 31 2016
Primary Capital:		
Adjusted retained earnings[1]	$ **713,957**	$ 642,512
Common shares	**541,472**	523,247
Investment shares	**118,542**	116,237
Total primary capital	**1,373,971**	1,281,996
Secondary Capital:		
Collective allowance for credit losses	**11,017**	21,207
Deferred income tax liabilities	**17,894**	18,042
Total secondary capital	**28,911**	39,249
Less Deductions:		
Intangible assets	**(43,078)**	(47,356)
Total Capital Available	$ **1,359,804**	$ 1,273,889
Capital as % of Risk Weighted Assets		
Total capital as % of risk weighted assets	**15.70%**	15.05%
Legislated minimum	**8.00%**	8.00%
Minimum supervisory requirement	**11.50%**	11.50%
Management internal minimum	**13.50%**	13.50%
Capital as % of Total Assets		
Total capital as % of assets	**8.84%**	8.60%
Legislated minimum	**4.00%**	4.00%

1 Retained earnings less fair value of derivative assets and net share of associate's assets

(Canadian $ thousands, except per share amounts)

28. GUARANTEES, COMMITMENTS AND CONTINGENT LIABILITIES

Guarantees

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

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

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

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

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

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

Standby Letters of Credit and Letters of Guarantee

Standby letters of credit and letters of guarantee are issued at the request of a Credit Union member in order to secure the member's payment or performance obligations to a third party. These guarantees represent an irrevocable obligation of the Credit Union to pay the third party beneficiary upon presentation of the guarantee and satisfaction of the documented requirements stipulated therein, without investigation as to the validity of the beneficiary's claim against the member. Generally, the term of these guarantees does not exceed three years. The types and amounts of collateral security held by the Credit Union for these guarantees is generally the same as for loans.

The Credit Union also guarantees a number of Mastercard® accounts for certain qualifying members. The Credit Union guarantees that balances will be repaid to the service provider. Most of these balances are unsecured, while some are secured by term deposits or personal guarantees.

Standby letters of credit and Mastercard guarantees outstanding were:

	As at October 31 2017	As at October 31 2016
Standby letters of credit	**$ 64,496**	$ 58,030
MasterCard guarantees	**4,793**	1,795
Total	**$ 69,289**	$ 59,825

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

(Canadian $ thousands, except per share amounts)

28. GUARANTEES, COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

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 2017	As at October 31 2016
Original term to maturity of one year or less	$ 2,577,547	$ 2,524,414
Original term to maturity of more than one year	51,309	132,346
Total	$ 2,628,856	$ 2,656,760

Property and equipment and intangible assets expenditure commitments	As at October 31 2017	As at October 31 2016
Total contractual amount	$ 920	$ 2,678
Cost to date	833	1,849
Remaining commitment	$ 87	$ 829

Contractual Obligations

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

	Property operating leases	Other contractual obligations	Total
Within 1 year	$ 9,482	$ 11,892	$ 21,374
Between 1 and 5 years	25,588	11,836	37,424
After 5 years	9,717	5,275	14,992
Total	$ 44,787	$ 29,003	$ 73,790

(Canadian $ thousands, except per share amounts)

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

		2017		
	Note	Carrying Value	Fair Value	Fair Value Difference
Financial Instrument Assets				
Cash and cash equivalents	a	$ 104,118	$ 104,118	$ –
Interest bearing deposits with financial institutions	c	1,180,660	1,180,634	(26)
Assets at amortized cost	e	794	794	–
Assets at fair value through profit or loss	d	31,695	31,695	–
Members' loans	b,c	13,675,636	13,606,998	(68,638)
Other	a	6,668	6,668	–
		14,999,571	14,930,907	(68,664)
Financial Instrument Liabilities				
Members' deposits	b,c	12,560,063	12,555,294	4,769
Liabilities at fair value through profit or loss	d	13,006	13,006	–
Borrowings	a	100,000	100,000	–
Secured borrowings	c	1,093,288	1,083,871	9,417
Trade payables and other liabilities	a	176,900	176,900	–
		$ 13,943,257	$ 13,929,071	$ 14,186

		2016		
	Note	Carrying Value	Fair Value	Fair Value Difference
Financial Instrument Assets				
Cash and cash equivalents	a	$ 102,002	$ 102,002	$ –
Interest bearing deposits with financial institutions	c	1,041,826	1,041,880	54
Assets at amortized cost	e	962	962	–
Assets at fair value through profit or loss	d	28,128	28,128	–
Members' loans	b,c	13,223,624	13,295,380	71,756
Other	a	7,189	7,189	–
		14,403,731	14,475,541	71,810
Financial Instrument Liabilities				
Members' deposits	b,c	12,299,715	12,311,376	(11,661)
Borrowings	a	76,007	76,007	–
Secured borrowings	c	922,215	931,363	(9,148)
Trade payables and other liabilities	a,d	152,766	152,766	–
		$ 13,450,703	$ 13,471,512	$ (20,809)

(Canadian $ thousands, except per share amounts)

29. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

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

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

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

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

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

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

As at October 31, 2016	Level 1	Level 2	Level 3	Total
Derivative assets	$ –	$ 6,866	$ –	$ 6,866
Embedded derivative assets	–	–	21,262	21,262
Financial assets held at fair value	$ –	$ 6,866	$ 21,262	$ 28,128
Member shares – Series E	–	(421)	–	(421)
Derivative liabilities	–	(6,508)	–	(6,508)
Financial liabilities held at fair value	$ –	$ (6,929)	$ –	$ (6,929)

Fair value measurements using Level 3 inputs	
Balance at October 31, 2015	$ 21,032
Gain included in profit and loss	230
Balance at October 31, 2016	$ 21,262

29. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The preferable valuation method for fair value is an active quoted market price; however, there is no active market for the purchase option described above. As such, an average between recent estimated market premiums and a discounted cash flow calculation is used to determine fair value. This calculation estimates all future cash flows from the purchase of the credit card business for the next 10 years to arrive at total future cash flows. These cash flows are discounted using a net present value calculation at a hurdle discount rate of 9.0%.

Reasonable changes to assumptions within the above valuation technique of unobservable inputs would not result in a significant change in the recorded fair values of the Level 3 items.

30. FINANCIAL RISK MANAGEMENT

The Credit Union is exposed to the following risk as a result of holding financial instruments: credit risk, market risk and liquidity risk. The following is a description of those risks and how the Credit Union manages exposure to them.

Credit Risk

Credit risk is the risk that a financial loss will be incurred due to the failure of a counterparty to discharge its contractual commitment or obligation to the Credit Union. Credit risk may arise principally in lending activities that lead to loans and advances and investments that bring debt securities, derivative counterparties and other investments into the Credit Union's asset portfolio.

Risk Measurement

The Credit Union employs a risk measurement process for its loan portfolio. Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner. Risk is measured by reviewing exposure to individual borrowers and by reviewing qualitative and quantitative factors that impact the loan portfolio. Qualitative and quantitative analyses of a borrower's financial information are important factors used in determining the financial state of the counterparty.

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

Credit Quality Performance

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

Objectives, Policies and Processes

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

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

(Canadian $ thousands, except per share amounts)

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk

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

Risk Measurement

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

Objectives, Policies and Processes

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

Since October 31, 2016, there were no significant changes in the Credit Union's market risk policies and procedures.

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

		2017		2016
Before tax impact of:				
1% increase in rates	**$**	**3,478**	$	8,867
1% decrease in rates	**$**	**(3,135)**	$	(7,055)

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, 2017, the Credit Union's net difference between assets and liabilities in foreign currencies was $1,621 (2016 – $1,524).

Liquidity Risk

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

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

Risk Measurement

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

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

Objectives, Policies and Processes

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

The Credit Union's liquidity policies and practices include:

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

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

The Credit Union will at all times maintain statutory liquidity levels as required by regulations. The Act requires that statutory liquidity deposits be held with Alberta Central at a minimum rate of 9.0% of average liabilities for the second prior month. Statutory liquidity includes eligible deposits and shares of Alberta Central. Immediate corrective action will be taken if the ratio approaches the regulatory minimum. Based on the average liabilities at August 2017, the Credit Union's liquidity as at October 31, 2017, exceeds the minimum requirement.

Key features of liquidity management include:

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

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

(Canadian $ thousands, except per share amounts)

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial Assets

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

Financial Liabilities

- Fixed-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, 2017	Non-Maturities	Less Than 1 Year	1 – 3 years	3 – 5 years	Over 5 years	Total
Financial Assets						
Cash and cash equivalents	$ 104,118	$ –	$ –	$ –	$ –	$ 104,118
Investments	293	1,180,660	–	–	501	1,181,454
Members' loans	2,418,538	3,828,270	4,596,528	2,736,711	95,589	13,675,636
Total Financial Assets	$ 2,522,949	$ 5,008,930	$ 4,596,528	$ 2,736,711	$ 96,090	$ 14,961,208
Financial Liabilities						
Members' deposits	7,109,773	3,900,841	1,335,766	213,445	238	12,560,063
Trade payables and other liabilities	415	168,302	–	–	–	168,717
Borrowings	–	100,000	–	–	–	100,000
Secured borrowings	–	338,544	529,369	225,375	–	1,093,288
Total Financial Liabilities	$ 7,110,188	$ 4,507,687	$ 1,865,135	$ 438,820	$ 238	$ 13,922,068
Net Maturities	$ (4,587,239)	$ 501,243	$ 2,731,393	$ 2,297,891	$ 95,852	$ 1,039,140

As at October 31, 2016	Non-Maturities	Less than 1 year	1 – 3 years	3 – 5 years	Over 5 years	Total
Financial Assets						
Cash and cash equivalents	$ 102,002	$ –	$ –	$ –	$ –	$ 102,002
Investments	293	1,041,994	–	–	501	1,042,788
Members' loans	2,404,401	3,572,559	4,542,690	2,598,404	105,570	13,223,624
Total Financial Assets	$ 2,506,696	$ 4,614,553	$ 4,542,690	$ 2,598,404	$ 106,071	$ 14,368,414
Financial Liabilities						
Members' deposits	7,064,960	3,761,905	1,247,626	187,498	31,218	12,293,207
Trade payables and other liabilities	421	140,016	–	–	–	140,437
Borrowings	–	76,007	–	–	–	76,007
Secured borrowings	–	168,566	470,055	283,594	–	922,215
Total Financial Liabilities	$ 7,065,381	$ 4,146,494	$ 1,717,681	$ 471,092	$ 31,218	$ 13,431,866
Net Maturities	$ (4,558,685)	$ 468,059	$ 2,825,009	$ 2,127,312	$ 74,853	$ 936,548

(Canadian $ thousands, except per share amounts)

31. INTEREST RATE SENSITIVITY

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

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

(Canadian $ thousands, except per share amounts)

31. INTEREST RATE SENSITIVITY (CONTINUED)

As at October 31, 2016	Floating Rate	0–3 months	3–6 months	6–12 months	More Than 1 Year	Non Interest Sensitive	Total
Assets							
Cash and cash equivalents	$ 70,892	$ –	$ –	$ –	$ –	$ 31,110	$ 102,002
Effective yield (%)	0.25%	–	–	–	–	–	0.17%
Investments in associates	–	–	–	–	–	176,382	176,382
Investments	–	931,048	109,251	–	–	2,489	1,042,788
Effective yield (%)	–	0.72%	0.86%	–	–	–	0.73%
Members' loans	4,687,266	576,161	541,448	1,263,819	6,138,071	16,859	13,223,624
Effective yield (%)	3.58%	3.63%	3.52%	3.59%	3.45%	–	3.52%
Other assets	–	–	–	–	–	266,814	266,814
	4,758,158	1,507,209	650,699	1,263,819	6,138,071	493,654	14,811,610
Liabilities and Equity							
Members' deposits	5,007,522	1,484,298	875,384	1,371,879	2,573,655	980,469	12,293,207
Effective yield (%)	0.47%	1.42%	1.47%	1.42%	1.06%	–	0.85%
Other liabilities	–	–	–	–	–	181,541	181,541
Borrowings	–	76,000	–	–	–	7	76,007
Effective yield (%)	–	1.36%	–	–	–	–	1.36%
Secured borrowings	–	32,518	43,669	92,380	753,648	–	922,215
Effective yield (%)	–	1.49%	1.50%	1.54%	1.61%	–	1.59%
Equity	–	–	–	–	–	1,338,640	1,338,640
	5,007,522	1,592,816	919,053	1,464,259	3,327,303	2,500,657	14,811,610
Off Statement of Financial Position							
Notional value of assets derivative financial instruments	–	–	–	200,000	–	–	200,000
Notional value of liabilities derivative financial instruments	–	(200,000)	–	–	–	–	(200,000)
Sub-total	–	(200,000)	–	200,000	–	–	–
Net 2016 Position	$ (249,364)	$ (285,607)	$ (268,354)	$ (440)	$ 2,810,768	$(2,007,003)	$ –

32. RELATED PARTY DISCLOSURES

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

Associates

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

Key Management Personnel

During the year, the following compensation amounts were included in personnel expense in the consolidated statement of income and comprehensive income for directors and management personnel of the Credit Union who have the authority and responsibility for planning, directing and controlling the activities of the Credit Union, directly or indirectly. These key management personnel are comprised of the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Chief Information Officer, Chief Credit Compliance & Operational Support Officer, Chief People & Corporate Services Officer and Chief Brand, Digital Banking & Corporate Social Responsibility Officer.

(Canadian $ thousands, except per share amounts)

32. RELATED PARTY DISCLOSURES (CONTINUED)

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

	Salary & Bonus	Benefits	Post Employment Benefits	2016
Chief Executive Officer (CEO)	$ 964	$ 66	$ 210	$ 1,240
Chief Financial Officer (CFO)	431	31	25	487
Chief Operating Officer (COO)	425	29	25	479
Chief Information Officer (CIO)	431	30	25	486
Chief Credit, Compliance, & Operational Support Officer (CCCO)	410	28	25	463
Chief People & Corporate Services Officer (CPO)	410	33	25	468
Chief Brand & Corporate Social Responsibility Officer (CBO)	362	27	25	414
	$ 3,433	$ 244	$ 360	$ 4,037

Directors' compensation and expenses	2017	2016
Compensation to directors	$ 688	$ 701
Expenses incurred by directors	98	114
Total	$ 786	$ 815

Compensation to directors ranged from $24 (2016 – $21) to $74 (2016 – $69) with an average of $53 (2016 – $54).

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

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

(Canadian $ thousands, except per share amounts)

32. RELATED PARTY DISCLOSURES (CONTINUED)

Members' loans	As at October 31 2017	As at October 31 2016
Key management personnel	$ 1,880	$ 1,837
Board of directors	3,648	3,605
Other employees	406,992	348,619
Total	$ 412,520	$ 354,061

Members' deposits	As at October 31 2017	As at October 31 2016
Key management personnel	$ 10,444	$ 10,589
Board of directors	1,926	2,435
Other employees	163,630	127,597
Total	$ 176,000	$ 140,621

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