Management's Discussion and Analysis
Consolidated Financial Statements

For the year ended October 31, 2014

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Servus Credit Union Ltd.'s (Servus or the credit union) 2014 annual report consists of Management's Discussion and Analysis and Consolidated Financial Statements for the year ended October 31, 2014, which details our credit union's financial and operating results. This document is available upon 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.

Servus Credit Union: Better Banking for Members

With roots that go back to 1938, Servus Credit Union has provided financial services to generations of Albertans. Over the years we've 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 in the future.

Nearly 400,000 members are served by close to 2,400 hard-working and dedicated Servus employees from more than 100 locations in 62 communities across Alberta. Our offices in Red Deer, Lloydminster and Edmonton support the business and administrative needs of our members and employees.

Servus is a co-operative financial institution that is committed to Member Ownership, Exceptional Service, Local Decision-Making, Profit Share, 100% Deposit Guarantee and Community Support. These principles serve as a guide for the work we do within the credit union and in our communities.

Our day-to-day operations are overseen by our Executive Leadership Team. These are the people at the head and heart of Servus:

- Garth Warner, President & Chief Executive Officer
- Yves Auger, Chief Information Officer
- Dan Bruinooge, Chief People & Corporate Services Officer
- Ian Glassford, Chief Financial Officer
- Marcel Fizell, Chief Credit Officer
- Gail Stepanik-Keber, Chief Brand & Corporate Social Responsibility Officer
- Darrell White, Chief Operating Officer
- Taras Nohas, Vice President Strategy & Governance

Vision, Mission and Values

Our vision, mission 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 over the years, but we know where we're going and how we're going to get there.

Our Vision

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

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Our Mission

Servus Credit Union provides sound, advice-based financial products and services. We are here for our members through all stages of their lives. We help them achieve personal satisfaction, enjoy financial stability and a good quality of life, and we are committed to making a difference in the communities where they live and work.

Our Values

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

A Better Banking Experience

This year we took the final steps in a five-year journey to bring our membership onto one banking system province-wide and offer consistent banking plans across Alberta. In addition, we:

- Streamlined our online banking system for our personal and small business members.
- Introduced mobile banking.
- Added *INTERAC*® e-Transfer service.
- Began offering members new MEMBER CARD® debit cards with *INTERAC* Flash† technology.

While this was a lot of change for members and employees, satisfaction with Servus remained high and our financial performance was strong. We had a good year and that means we were able to share a record $50 million in profits with our members.

(MEMBER CARD is a registered trademark of Credit Union Central of Canada. *INTERAC* is a registered trademark owned by Interac Inc. and is used under licence.)

Helping in Our Communities

Servus has always been a strong advocate for investing in our communities and it's one of the principles that guide our business. In 2014, Servus contributed over $2 million to a wide range of community organizations and initiatives across the province. This is on top of the thousands of dollars raised through employee fundraising efforts or the time our employees spent volunteering in the community.

Here are a few of the areas Servus supported this year:

- Servus's Community Rebuilding Fund provided $186,412 to organizations in Calgary, southern Alberta and Fort McMurray to help communities recover from the flooding in 2013.
- Servus is donating $250,000 over three years to support Lakeland College's Centennial Campaign, which benefits both students and community organizations that use the facilities.
- We invested $138,000 in the Junior Achievement Dollars with Sense program, which teaches junior high students how to make smart financial decisions. Our employees also volunteer their time to teach these programs.
- Our Young & Free Scholarship program provided 30 post-secondary students each with a $1,000 scholarship.
- We donated $25,000 to the Rimbey Agrim Centre project to support agriculture in the area—an important economic driver in this community.
- Servus played a major role in a fundraising campaign to help the Bissell Centre in Edmonton rebuild after a devastating fire. We gave $15,000 to match funds raised in the community.

Our community investment dollars supported dozens of other initiatives across the province such as the United Way, Big Brothers Big Sisters Medicine Hat and Region, the Youth and Volunteer Centre in Red Deer, the Sexual Assault Centre of Edmonton and the Grande Prairie Volunteer Bureau Association, to name a few. We actively support organizations that keep our communities strong.

Recognizing Our Credit Union

Servus and our employees were honoured to receive a number of awards this year for the difference we've made for our members and our communities. We believe strongly in the work we do and appreciate the acknowledgement of our efforts. Our awards included:

- Credit Union of the Year award at the Alberta Central 2014 AGM & Conference, which recognized Servus's strong financial results, our ongoing commitment to communities across Alberta and demonstration of the co-operative spirit.
- Re-qualification as a member of the Platinum Club of Canada's 50 Best Managed Companies for the fifth year in a row.
- The Venture 250, which recognizes Alberta's highest grossing companies.

These awards are representative of a larger recognition of the role credit unions play in providing superior member service. Ipsos Reid asked Canadians about their banking experience and for the 10th year in a row, credit unions outperformed other Canadian financial institutions when it came to providing great service. Among the six top honours credit unions received, Servus is most proud that credit unions were first in Customer Service Excellence. For us, it's always about putting our members first.

(*Ipsos 2014 Best Banking Awards are based on quarterly Customer Service Index (CSI) survey results. Sample size for the total 2014 CSI program year ended August 2014 was 45,428 completed surveys yielding 68,738 financial institution ratings nationally*.)

A Foundation for the Future: Servus in 2014

Market and Economic Environment

In fiscal 2014, Servus continued to benefit from doing business in Alberta, one of the most attractive economies in North America. Strong net migration, solid job growth and low interest rates combined to support a very vibrant housing and commercial sector.

We have found that Alberta's success has attracted many more competitors, particularly in the area of lending. This has resulted in more aggressive pricing for loans and deposits, which benefits our members but also makes it more challenging to deliver the financial results needed to ensure the long-term success of the credit union. Despite this increased competitive pressure, Servus realized loan growth of $724.3 million or 6.2% this year, compared to $1,065.5 million the previous year.

Interest rates in 2014 surprised many, including Servus, by dropping from already very low levels. This was great news for our members who borrowed from, us but the extended period of low rates has created serious problems for members who rely on their investments or are trying to save for retirement. The low-rate environment also affects Servus's financial performance because it impacts the return on our loans and investments. We have responded to this by offering products like the Stock Tickers, Double Your Rate GIC and the Ladder GIC which are designed to give members an opportunity for higher returns while still enjoying the security of our 100% deposit guarantee.

Much like 2013, the past year has been one of economic opportunity combined with competitive and financial challenges. Servus has done well in delivering solid financial performance while continuing to offer competitive rates and make investments in member services.

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Key Performance Drivers

Objective	Measure	2014 Target	2014 Result	2013 Result
Financial Performance				
Financial growth	Operating income (millions)[1]	$116.1	$120.2	$118.5
Reduced dependency on interest-based income	Other income as a percentage of average assets[1]	0.585%	0.589%	0.625%
Leveraging assets profitably	Return on assets[1]	0.857	0.890%	0.939%
Employee Experience				
High-level employee satisfaction	Employee engagement score as reported by employee survey	76%	77%	82%
Dedicated to life-long learning	Per cent of employees attending development programs	70%	44.75%[3]	75.95%
Future-focused strategic staffing	Per cent of executive leadership and senior leadership with a succession plan	100%	100%	100%
Member Experience				
Servus members are advocates	Member satisfaction score as reported by member survey	76%	79%	*75.4%
Servus members as advocates	Member Loyalty Index	47%	47%	*46.3%
Business Processes				
Business process improvements for effectiveness and efficiency	Operating efficiency ratio[1,2]	70.535%	68.624%	68.922%
	Operating expenses as a percentage of average assets[1]	2.235	2.306%	2.254%

1. Results are before patronage, income taxes, employee incentives and extraordinary items.
2. The operating efficiency ratio is a ratio of expenses to revenues. In essence, it measures how much the credit union spent to earn a dollar of revenue. A lower percentage reflects better results.
3. Employee focus was moved to training for banking system conversion.

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Our Performance This Year

In fiscal 2014 Servus completed a number of significant projects, any one of which would be seen as a challenge to deliver. The story of our performance this year is one of big changes done well and done on budget.

The year began with the launch of mobile and INTERAC e-Transfer services and a new retail online banking platform for our members. With these changes, members were given the ability to send funds using email and access their accounts using their mobile devices.

In late spring we completed the final phase of the project that moved all our members to a single banking system when we integrated our branches in the south of the province. Servus employees can now provide full banking services seamlessly between branches across Alberta. This achievement was only possible because of the support of our branch and Member Contact Centre employees, our technology and project teams, the 250 employees from across Alberta who volunteered to share their expertise with our southern branches and, of course, our members. This was an outstanding example of how our employees worked together to accomplish great things.

This summer we completed the final phase of a related project, which transitioned member accounts from our Edmonton area branches to the new suite of banking products.

With these projects now completed, we've taken almost all the steps needed to effect the merger and bring our 102 branches and approximately 388,000 members together in a single credit union that spans Alberta, from Fort McMurray to Lethbridge and from Lloydminster to Jasper.

We're pleased to note that through all of this change our members have continued to support us and have told us they are very happy with the results. Our member satisfaction scores remain at the top of the financial industry, with 79% of members surveyed telling us that that they are either very satisfied or completely satisfied with Servus—up from 75% last year. Our employees have provided a similar endorsement of the accomplishments in 2014 with an engagement score of 77%, which is down from 82% last year.

Net Interest Income

Net Interest Income is the difference between what is earned on loans and what is paid on deposits. It represents the largest source of revenue for us. The environment of interest rates at historic lows has been pushing down the ratio of net interest income at financial institutions across Canada and Servus has been no exception to this trend. During fiscal 2014 the ratio of net interest income to our average assets fell from 2.66% to 2.57%. In dollar terms, this income rose by $12.8 million or 3.8%, but this was lower than the percentage increase in assets. Put another way, the amount of income we earned from each loan and deposit fell during fiscal 2014 but because we had more loans and deposits, the total amount of income we earned increased.

During 2014 the average yield on loans such as mortgages came down, but Servus paid more on deposits to fund our loan growth. This combination of lower loan yields and higher deposit costs resulted in lower-than-expected net interest income during the year. By the final quarter of fiscal 2014, however, Servus had stabilized this situation and we expect to be able to arrest this decline in the ratio of net interest income during 2015. Whether we can do this will, however, depend on whether interest rates fall further next year.

Provision for Credit Losses

The Provision for Credit Losses is the amount we allocate for our estimate of loan losses during the year (both for loans we have identified and those not yet identified as a problem). Our Provision for Credit Losses increased by $1.8 million or 16.9% in 2014. Although the percentage of delinquent loans over 60 days fell from 0.79% last year to 0.67% this year, that improvement was more than offset by an increase in the provision to recognize our higher risk of loan loss from falling oil prices and a higher level of loan write-offs during the year.

We will continue to monitor the risk from oil prices through fiscal 2015 and, if there are any new developments, users of our financial statements will be able to see our expectations in the quarterly statements that we publish online.

Other Income

Other Income includes revenues from wealth management, card services, foreign exchange and service fees. This income was unchanged from 2013 and, expressed as a percentage of our assets, fell from 0.625% in 2013 to 0.589% in 2014.

In fiscal 2014, Servus earned less from insurance than we did in 2013 due to higher costs from insurance claims. We can't control how many members will make claims in a year and there is some element of risk in this business. We recognize that the numbers in 2015 could be better or worse than what was earned in 2014.

Loan fee income was also less than what was earned during 2013. This was because of lower commercial loan volumes and more intense competition for business.

In contrast, our income from our wealth services rose by $3.2 million compared to 2013—an increase of 25.8%. We made substantial investments in expanding our services to members in this area. The strong results confirm that our advice-based approach to helping members with their savings and investment plans is giving members what they are looking for. Our expectation is for continued strong results in this area in 2015.

Operating Expenses

Management of costs was a success story for Servus in 2014. Despite the costs associated with launching online and mobile services for members, we were able to hold our increase in expenses to 1.7% over the prior year. It's this diligent cost management that makes it possible for us to provide the competitive pricing our members expect, invest in technology and new services for members, and grow our capital to ensure the long-term viability of the credit union.

With the exception of the cost of deposit insurance (which rises in lock-step with the growth in deposits) and our investment in technology, Servus held expense increases in all areas of the company to a level at or below our increase in assets. Continuing this kind of expense management is essential to our long-term success, particularly taking into account the downward pressure on interest income. Members should expect similar performance in 2015.

Operating Income

Servus targets an income figure called Operating Income, which is income before profit sharing, income taxes and unusual items such as income from Alberta Central. Operating Income best represents the amount that is available to share with members in patronage and also the amount of income that the credit union can expect to see continue in future years. One-time gains or income from affiliates that we don't control are not indicative of the ongoing performance of Servus or a basis for building profit sharing or capital plans for the credit union.

In fiscal 2014 Operating Income rose by $1.7 million or 1.4%. The challenges noted earlier in the areas of Net Interest Income and Other Income were more than offset by the careful management of costs, allowing Servus to deliver an increase on the bottom line.

Our total income before patronage and taxes fell by approximately $5.5 million from $122.6 million to $117.1 million. The reason for this decline was an $11 million decrease in income from associates, specifically Alberta Central. In fiscal 2013, Alberta Central realized a large recovery on investments made. In 2014 Alberta Central realized a recovery of a similar nature but a much smaller amount. We expect that in 2015 and going forward such recoveries will be less common and of much smaller amounts.

Capital

Capital represents our ability to deal with the ups and downs that every economy experiences while still ensuring your deposits are well protected. The higher our level of capital, the better our credit union and members are protected. Servus has a stated goal to grow our capital to ensure there is a sufficient cushion to deal with the risks we take as part of providing services to our members and, more specifically, a goal to focus on growing retained earnings.

During 2014 Servus's retained earnings grew $51.7 million or 9.8%—almost double the rate of loan growth. We consider this a very positive outcome since we're growing our protection against unexpected negative developments at a much faster rate than the business we are acquiring.

Our total regulatory capital (common shares, investment shares and adjusted retained earnings) grew by $75.2 million or 7.6%, again, faster than the rate of loan growth.

The Credit Union Deposit Guarantee Corporation (CUDGC), which regulates Alberta credit unions, set out new regulatory capital targets that started in 2013. These targets, expressed as capital as a percentage of risk weighted assets, are as follows:

Year	2014	2015	2016
Capital as a % of Risk Weighted Assets	10.50	11.50	11.50

In addition, by 2017 CUDGC expects credit unions to have in place internal policies targeting capital levels at least 2% above these figures. For Servus, this translates into a target of 13.5%.

In 2014 Servus grew the ratio of capital to risk-weighted assets from 13.02% to 13.24%. We expect to see continued progress in this area during 2015 and expect to have achieved the 13.5% target by the end of 2017.

Ups and Downs: Outlook for 2015

As fiscal 2014 drew to a close, the economic environment for Alberta was beginning to cloud over. Oil prices were falling dramatically. Fears were growing of an economic slowdown in China, stagnation in Europe and outright recession in Russia.

Offsetting this, the U.S. economic situation continues to gradually improve, the financial condition of many governments improved through 2014 and the U.S. consumer appears to be healthier than they have been for a number of years.

There is very clear potential for Alberta to experience a strong economic shift to the downside but there is also the possibility of conditions clearing and our solid performance resuming. Forecasting results for 2015 is an interesting challenge. As summarized below, our expectations for 2015 are a weaker, but still positive, environment for Servus and Alberta.

Interest Rates

Many of our members, borrowers and depositors, have a keen interest in where rates are going over the next year. Servus shares that interest because changes in the interest rates can have a significant impact on our income.

We'd like to see interest rates increase somewhat during 2015 but our opinion is that this isn't likely. We believe that the Bank of Canada is still quite concerned about the underlying strength of the Canadian economy, risks to the global economy, and the danger of raising rates too soon. In addition, we believe the Bank of Canada sees very few inflation risks on the horizon and isn't likely to become concerned until they see the Canadian economy putting to use much more of the excess production capacity than is being used today.

Economy

The story for Alberta in 2014 was one of solid economic growth because of high energy prices, increases in employment, and high net migration both from within and outside Canada, against a backdrop of extremely low interest rates.

We're expecting Alberta to experience positive economic conditions again in 2015 but not as good as we've seen in the past few years. The decline in oil prices seen in our last quarter of 2014 will slow the economy, even if prices recover to previous highs. The sharp decline has made markets realize how volatile energy can be in the short term and we don't expect this lesson to be forgotten quickly during 2015. At this point, however, we're not expecting the recent weakness in oil prices to cause significant problems for the Alberta economy. Much of the investment in the province is based on longer term outlooks. Unless there is a material disruption to the underlying story that the U.S. is in a gradual recovery and that China can manage, we believe that in the medium and longer term (which drive much of the economic activity in Alberta) oil prices are not at risk of significant decline from current levels. In summary, we are expecting some economic disruption in Alberta from lower oil prices but not enough to create material economic problems. This should translate into reasonable but weaker economic conditions in 2015.

We recognize the risk posed by the supply side of energy with U.S. production increasing rapidly but at this point consider this a shorter term (up to three years) factor. In terms of financial risk to the credit union, our Provision for Credit Losses for fiscal 2014 did take into account the expected financial impact from oil based on the price as at October 31, 2014. The energy sector is in the midst of significant global disruption with prices falling by close to 50% from their highs; any forecast of outcome is challenging in such an environment.

Similar to the Alberta economic situation, our outlook for housing and housing prices is less optimistic than prior years but not negative despite the situation with energy. As noted in last year's statements, the factors that have been driving housing and house prices include strong employment, sound net migration, wage increases and extremely low interest rates. With a slower Alberta economy, we could see a decrease in net migration, some downward trend in incomes (largely through reduced overtime) and some loss of jobs. Taking this into account, we still expect a fairly strong employment situation and continued low rates. While we share the concerns of the Bank of Canada and others about the question of consumer debt and the ratio of housing prices to income, it does not appear that this is going to become a major issue in 2015. At this point we expect instead to see slowing demand for housing and a flattening trend in prices but no serious disruptions.

Setting the Direction: 2015–2017 Strategic Plan

This was an important year for Servus. 2014 marked the completion of our banking system and product suite integration projects. We also released a new online and mobile banking platform. Both of these were significant accomplishments and will allow us to better serve our members.

Now that we have the foundation in place to build new and better member services and a stronger credit union, we can channel all our energy into what we do best: providing our members with sound, advice-based financial products and services.

In 2015 we'll continue work on our foundational strategies of Value Proposition, Members First, Corporate Social Responsibility, Long-term Delivery Strategy, Financial Sustainability Model and Leadership Development. The implementation of these, along with development and implementation of the Organizational Change Management Strategy, People Strategy and Member Experience Strategy, will guide how we operate and do business long-term.

Our strategic priorities for 2015-2017 will help us achieve the following goals:

- Growth in key markets, especially Calgary
- Making all our operations as efficient and cost-effective as possible
- Implementation of specific technology initiatives to remain competitive and keep up with market
- Leadership development of our employees

Balanced Scorecard

Servus will continue to use a balanced scorecard system, which allows us to measure and track our success. As an effective and comprehensive forward-looking tool, the balanced scorecard provides our employees a clear understanding of what success looks like to Servus. The balanced scorecard shows our progress in achieving our strategic business plan under the following categories:

Member Experience

We will continue to provide exceptional member service by providing the most appropriate products, programs and services to meet members' expectations and diverse needs. Our decisions reflect the best interests of our members, communities, employees and our organization.

Employee Experience

We are proud that employees feel Servus provides a positive, safe, rewarding and engaging work environment. We will continue to invest in our employees by engaging, developing and advancing them through on-the-job experience, career opportunities, and mentoring and leadership development programs.

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. A credit union is a generational trust and must be operated with a plan to ensure long-term financial viability so that we are available to help the next generation of members.

Business Processes

We will continuously focus attention and resources to improving 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. As an organization, we are committed to being a leader in our industry and providing guidance within a strong credit union system provincially, nationally and internationally.

As we plan for our future, we must keep our focus on our vision, mission and values. We must continue to build the foundations of Servus. In 2014 we completed our banking system and product harmonization, but there is still work to be completed to achieve full organizational integration. When this is completed, we will be ready to take full advantage of opportunities that will bring us closer to our vision of building a better world—one member at a time.

A Framework for Success

Corporate Governance

We embrace the credit union principle of democratic membership through our Board of Directors. The Servus Credit Union Board of Directors represents our 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 our members' interests top of mind. The Servus Board of Directors sets the strategic direction and puts in place the controls necessary for our 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 member-owners and their communities. The board sets the credit union's strategic direction, formulates and monitors policies, evaluates organizational performance and ensures an effective risk management framework is in place.

The board uses a governance model and functions in accordance with the *Credit Union Act* and Servus Credit Union bylaws. It is responsible for the election of the board chair and vice chair, and for the selection of directors to represent Servus on the Board of Credit Union Central of Alberta.

Board Structure

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

There are three board committees:

Audit and Finance Committee

The Audit and Finance Committee oversees the financial reporting process, reviews financial statements, liaises with internal and external auditors and regulators and reviews internal control procedures.

Governance and Human Resource Committee

The Governance and Human Resource Committee establishes and maintains effective governance guidelines, ensures the performance and succession of the CEO and ensures compliance with the *Credit Union Act*, governance policies and Servus bylaws. This committee also serves as the Nominating Committee for the director elections.

Enterprise Risk Management Committee

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

In addition, the Board of Directors appoints qualified employees, as recommended by the CEO, to a Credit Committee. This committee authorizes loans within limits established by the Board of Directors and provides a bi-monthly written report to the board.

Position Descriptions

Servus's directors provide strategic advice and business oversight of our operations. They are required to act honestly and in good faith with a view to the best interests of our credit union. They must exercise care, diligence and skill. The board annually reviews the position descriptions for the board chair, committee chairs, directors 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. We also expect our directors to complete the online training curriculum of the Credit Union Director Achievement program within one year of their election.

These and other learning opportunities enable our 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 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. We require our directors 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. Our member-owners elect directors to a three-year term, at the end of which they may run for re-election. Servus has no limit on the number of terms a director may serve. The Governance and Human Resource Committee, through 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 educational background; a self-assessment of skills, knowledge and experience; and previous board experience. Candidates must also undergo a criminal records check.

We provide profiles on all board candidates to our members in statement mailings, on our website and in our branches. Voting is held at every branch and online. The Governance and Human Resource Committee reviewed the electoral process in 2012 and the changes below were approved by the board and implemented. Further refinement of the process took place in 2014.

- The total number of candidates is limited to twice the number of available positions.
- Candidate selection criteria are based on skills and competencies key to the continued success of the credit union.

- The Board Nominating Committee is made up of members of the board's Governance and Human Resource Committee, two Community Council representatives and an independent advisor from the private sector.
- Candidates provide responses to four questions in addition to other background materials, which are then made available so members can get a better understanding of where they stand on key issues.
- Amended campaigning policy allows for the use of social media by candidates.
- Each candidate is interviewed by the Nominating Committee to confirm 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; branch openings; education and planning sessions; and credit union system conferences. We also reimburse board members for all travel expenses and pay a meeting per diem.

Honorarium	
Directors	$30,000 per annum
Vice Chair	$35,000 per annum
Chair	$40,000 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. We also participate in bi-annual national credit union surveys that look at board remuneration.

Performance Evaluation

Each year, the Board of Directors and the CEO are evaluated to assess their effectiveness and to identify opportunities for improvement. Performance evaluations for the board include a self-assessment tool as well as a peer review. Additional feedback is gathered for the board chair and each board committee 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 seven regular meetings in 2014 and a two-day planning session in April.

During the year, the Audit and Finance Committee met ten times, the Enterprise Risk Management Committee met six times, and the Governance and Human Resources Committee met nine times. Additional ad-hoc committee meetings were held as required.

Directors participated in the following:

- Servus's Annual General Meeting in March 2014
- The Credit Union Central of Alberta Conference and Annual General Meeting in April 2014
- The Credit Union Central of Canada Conference and Annual General Meeting in May 2014
- The World Credit Union Conference in July 2014
- The Credit Union Central of Alberta Fall Conference in September 2014

Risk Management

Servus has in place a risk management structure that enables us to adapt to changes in economic and operational environments. The following is an overview of this structure and the types of risk we're typically exposed to. (See Note 30 on Financial Risk Management in the 2014 Consolidated Financial Statements for more details.)

Enterprise Risk Management

Servus uses an enterprise-wide approach to identify, measure, monitor and manage risk. We based this approach on the framework developed by the Committee of Sponsoring Organizations of the Treadway Commission, the recognized risk management control standard in the financial services sector, together with ISO 31000 Risk Management – Principles and Guidelines, 2009 (International Organization of Standardization).

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

We believe that effective enterprise risk management is a journey and not a destination, so we continue to grow, evolve and adapt our risk management program. The framework we use provides processes for identifying risks and assessing the likelihood of their occurrence and impact. The framework is also used to establish policies, procedures and controls to ensure that we manage risk within acceptable 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 CEO is responsible and accountable for risk management. Day-to-day monitoring and reporting on risk is delegated to the Senior Vice President Risk and Audit. Three management committees—the Asset Liability Committee, the Management Credit Committee and the Management Risk Committee—identify, assign and monitor risks through their work. Ownership of key risks is delegated to the appropriate Executive Leadership Team member.

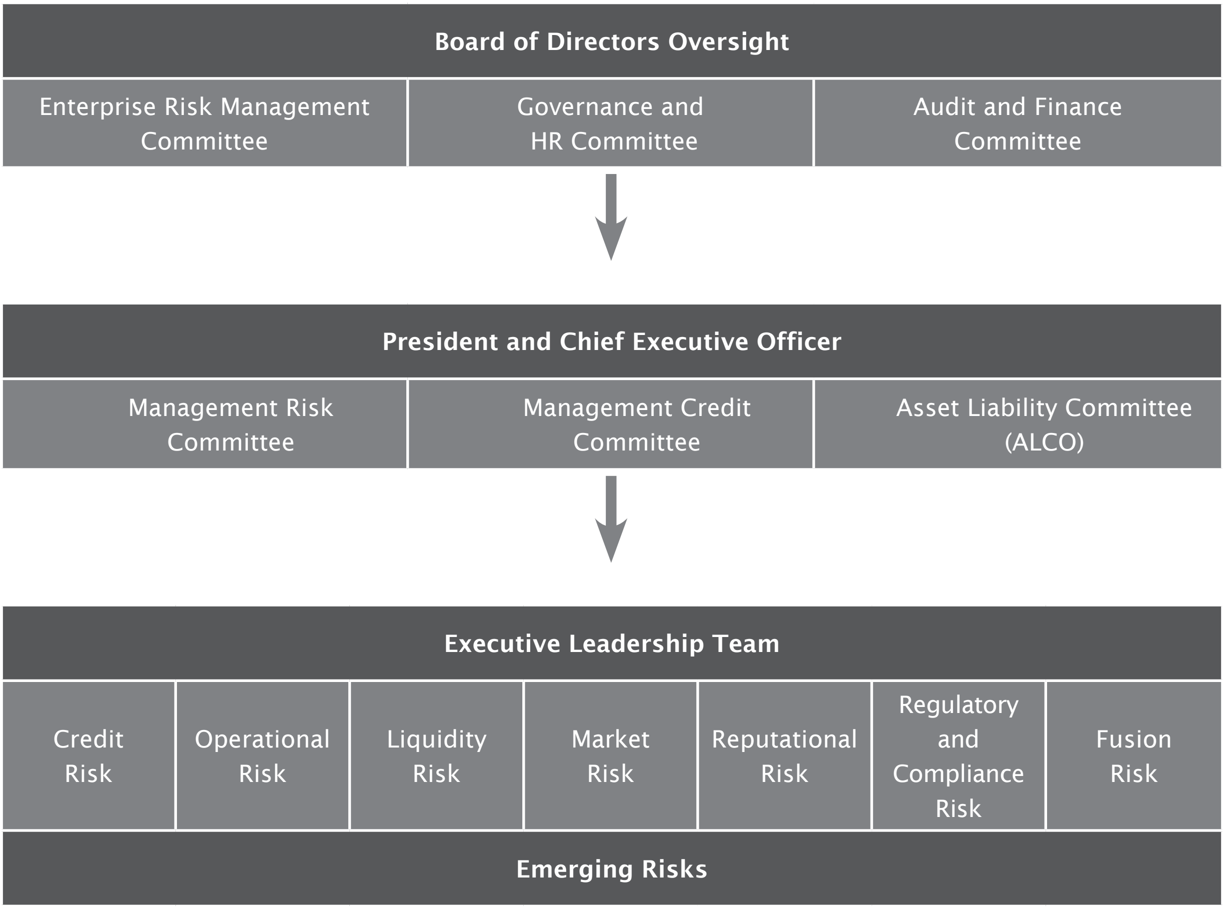

Figure 1: Servus Credit Union's Enterprise Risk Management Governance Model

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

Servus's risk management framework has four cornerstones (see Figure 2). We review and update each cornerstone to ensure consistency with risk-taking activities and relevance to our business and financial strategies, the Credit Union Deposit Guarantee Corporation (CUDGC) Standards of Sound Business practices and the legislative environment.

Practices and the Legislative Environment

1. 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.

2. Guidelines

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

3. 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.

4. 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.

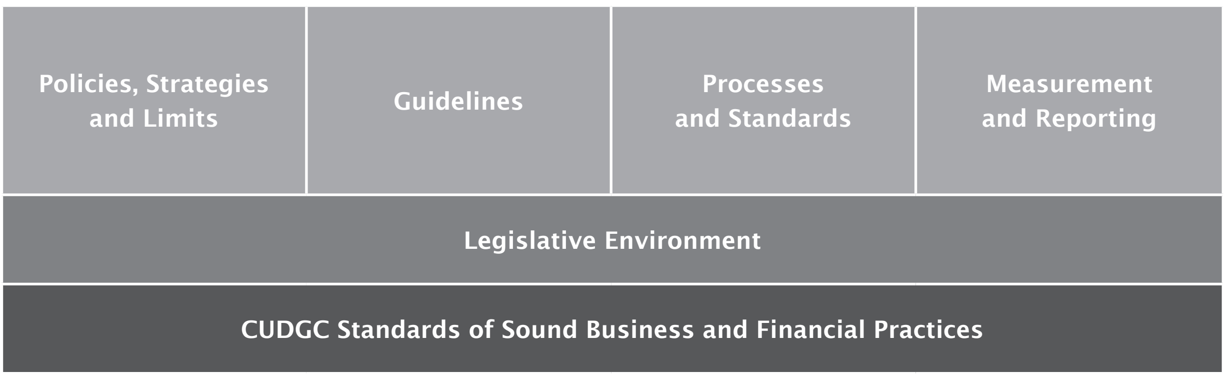

Figure 2: Servus Credit Union's Risk Management Framework

Types of Risk

Servus groups its major risks into eight categories:

1. Credit Risk

Credit risk is the risk of financial loss resulting from the failure of an individual or business to honour an obligation to our credit union. Credit risk arises any time credit union funds are extended, committed, invested or otherwise exposed through actual or implied contractual agreements. Credit risk is found primarily in the lending portfolio but is also present in other transactions.

Servus manages credit risk through policies and limits to ensure broad diversification across Alberta and within various industries and product mixes. We also manage risk 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 experienced and skilled lenders who have demonstrated experience, education and clearly documented decision-making authority, and through approval processes that include a Management Credit Committee.

2. Operational Risk

Operational risk is the possibility that Servus may not be able to offer its products and services to members or continue to operate its business. It is also the risk of loss resulting from inadequate or failed internal processes, people and systems, or external events. While operational risk cannot be completely eliminated, proactive operational management is a key strategy to mitigate this risk.

Servus manages operational risk through a knowledgeable and experienced management team. They are committed to the risk management policies and to promoting an ethical culture with clear communication to reinforce and guide our operational risk-taking activities. Our implementation of supporting policies and procedural controls include (among others) the segregation of duties and built-in systemic checks and balances. Additional controls include an established "whistleblower" process, an employee code of conduct, regular internal audits by an independent audit team and continual review and upgrade of systems and procedures.

3. Liquidity Risk

Liquidity risk is the possibility that Servus is unable to meet its financial obligations as they fall due. It entails:

- The sufficiency of the deposit base and/or other funding sources to maintain the asset base
- The risk of having insufficient liquid resources to meet our credit union's cash or funding requirements
- The risk of having insufficient liquid investments to meet statutory liquidity requirements

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

4. Market Risk

Market risk is the risk of financial loss resulting from changes to the value of the assets or liabilities of Servus, most commonly through interest rate changes.

To manage interest rate risk effectively, the Asset Liability Committee establishes policy guidelines and meets regularly to monitor the Bank of Canada's position and determine future 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.

5. Reputation Risk

Reputation risk is the risk to earnings and capital arising from negative public or stakeholder opinion. This can result from actual or alleged conduct in any number of activities but often involves questions about business ethics and integrity, competence, corporate governance practices, quality and accuracy of financial reporting disclosures or quality of products and services. Negative public or stakeholder opinion could adversely affect our ability to attract and keep members and could expose Servus to legal or regulatory action.

Servus manages and measures reputation risk by monitoring the external media environment; conducting regular surveys of members, non-members and employees; and through regular reporting by the Management Risk Committee. In addition, our employee code of conduct and corporate values reinforce the standards and sound business practices we believe are essential to maintaining our reputation.

6. Regulatory and Compliance Risk

Regulatory and compliance risk is the risk of Servus not fulfilling the requirements of external or internal regulatory functions. 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 our credit union.

The Servus philosophy is to manage regulatory risk by maintaining a strong culture of integrity and sound controls. Business units and corporate areas are responsible for managing day-to-day regulatory and legal risk, while the compliance departments assist them by providing advice and oversight. Again, our code of conduct and corporate values help set the tone for a culture of integrity. The code stipulates that concern for what is right, including compliance with the law, should be the first consideration in all business decisions and actions. All directors, officers and employees are required to attest annually that they understand the code of conduct and comply with its provisions.

7. Fusion Risk

The Fusion program includes the harmonization of three core banking system platforms and the introduction of new ancillary software. This is a significant technology and business process transformation program for Servus. Fusion program risk is defined within Servus as the risk that the credit union is exposed to by investing significant resources in the multiple projects that comprise the Fusion program. Servus manages the program through project best practices and controls, regular internal risk reviews and regular audits by an independent audit team. The Fusion program was completed in the first quarter of our 2015 fiscal year and will be removed from Servus's risk register going forward.

8. 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 changing economic conditions, the impacts of geographic concentration within single industry locations, fraud and crime trends, and issues relating to continuing consolidation through amalgamations.

We continue to mature our enterprise risk management program to ensure that the business understands the environment in which we operate while monitoring key risk indicators to effectively manage risk.

SERVUS CREDIT UNION LTD.
Consolidated Financial Statements

For the year ended October 31, 2014

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 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. Internal audit is one method that provides management with the ability to assess the adequacy of these controls. Further, the systems of internal control are reviewed by the Credit Union's external auditors to the extent necessary to render their opinion on the Consolidated Financial Statements.

The Board of Directors (the Board) has approved the Consolidated Financial Statements. The Board has appointed an Audit and Finance Committee, composed of four directors, to review with management, advisors 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 & Chief Executive Officer (CEO)

Ian Glassford, MBA, CMA

Chief Financial Officer (CFO)

Deloitte.

Deloitte LLP
2000 Manulife Place
10180 - 101 Street
Edmonton AB T5J 4E4
Canada

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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, 2014, 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 October 31, 2014, 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, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Accountants

January 22, 2015

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

	Notes	**October 31 2014**	October 31 2013
Assets			
Cash and cash equivalents	5	**$ 124,813**	$ 142,310
Investments	6	**1,015,716**	803,972
Members' loans	7,9	**12,467,469**	11,743,165
Income taxes receivable		**5,268**	–
Assets held for sale	10	**5,322**	9,752
Other assets	11	**9,671**	12,406
Property and equipment	12	**172,412**	178,808
Investment property	13	**7,360**	7,404
Derivative financial assets	14	**23,000**	24,976
Investments in associates	15	**164,103**	152,679
Intangible assets	16	**48,728**	40,959
Deferred income tax assets	17	**44**	19
Total assets		**14,043,906**	13,116,450
Liabilities			
Borrowings	18	**148,696**	17,630
Members' deposits	19	**12,569,549**	11,870,882
Trade payables and other liabilities	20	**155,679**	136,839
Income taxes payable		**–**	3,470
Provisions	21	**510**	454
Derivative financial liabilities	14	**4,932**	7,547
Investment shares	23	**489**	449
Defined benefit plans	22	**6,741**	7,283
Deferred income tax liabilities	17	**14,536**	11,359
Total liabilities		**12,901,132**	12,055,913
Equity			
Share capital	23	**559,079**	529,009
Retained earnings		**581,776**	530,067
Accumulated other comprehensive income		**907**	447
Total equity attributable to members of the Credit Union		**1,141,762**	1,059,523
Non-controlling interest		**1,012**	1,014
Total equity		**1,142,774**	1,060,537
Total liabilities and equity		**$ 14,043,906**	$ 13,116,450

The accompanying notes are an integral part of these consolidated financial statements.

Approved on behalf of the Board of Directors

Doug Hastings, Chair, Board of Directors

Perry Dooley, Chair, Audit and Finance Committee

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

	Note	Year ended October 31 2014	Year ended October 31 2013
Interest income			
Members' loans		$ **486,723**	$ 463,148
Investments	24	**9,270**	8,900
Total interest income		**495,993**	472,048
Interest expense			
Members' deposits		**147,275**	136,457
Other interest expense	25	**2,420**	2,080
Total interest expense		**149,695**	138,537
Net interest income		**346,298**	333,511
Other income	26	**80,369**	80,742
Share of profits from associates	15	**10,529**	21,538
Net interest income and other income		**437,196**	435,791
Provision for credit losses	8	**12,532**	10,722
Net interest income after provision for credit losses		**424,664**	425,069
Operating expenses			
Personnel		**184,999**	181,044
General		**58,621**	60,044
Occupancy		**21,054**	21,050
Member security		**19,548**	18,316
Depreciation	12,13	**14,658**	14,553
Organization		**4,975**	4,516
Impairment of intangible assets	16	**37**	1,295
Amortization	16	**3,664**	1,691
Total operating expenses		**307,556**	302,509
Income before patronage allocation to members and income taxes		**117,108**	122,560
Patronage allocation to members	23	**28,259**	26,655
Income before income taxes		**88,849**	95,905
Income taxes	17	**20,336**	22,672
Net income		$ **68,513**	$ 73,233
Other comprehensive income		**460**	222
Total comprehensive income		$ **68,973**	$ 73,455
Other comprehensive income for the year, net of tax:			
Actuarial gains on defined benefit pension plans [1] (net of income taxes of $133, 2013 -$61)	22	**460**	222
Total other comprehensive income		$ **460**	$ 222
Total comprehensive income			
Comprehensive income attributable to members		**68,975**	73,473
Comprehensive loss attributable to non-controlling interest		**(2)**	(18)
Total comprehensive income		$ **68,973**	$ 73,455

[1] *The Actuarial gains/losses will not be reclassifed 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 of Changes in Equity
(Canadian $ thousands, except per share amounts)

	Notes		**Year ended October 31 2014**		Year ended October 31 2013
Share capital					
Common shares					
Balance, beginning of year	23	**$**	**418,161**	$	393,027
Issued	23		**27,273**		25,533
Redeemed	23		**(16,130)**		(15,899)
Share dividend	23		**16,262**		15,500
Balance, end of year	23		**445,566**		418,161
Investment shares					
Balance, beginning of year	23		**110,848**		109,172
Redeemed	23		**(2,746)**		(3,047)
Share dividend	23		**5,411**		4,723
Balance, end of year	23		**113,513**		110,848
Share capital, end of year	23	**$**	**559,079**	$	529,009
Retained earnings					
Balance, beginning of year		**$**	**530,067**	$	473,163
Net income			**68,513**		73,233
Dividend (net of income tax recovery of $ 4,869, 2013 – $4,482)			**(16,804)**		(16,329)
Retained earnings, end of year		**$**	**581,776**	$	530,067
Accumulated other comprehensive income (AOCI)					
Balance, beginning of year		**$**	**447**	$	225
Actuarial gains on defined benefit pension plans			**460**		222
AOCI, end of year		**$**	**907**	$	447
Total equity attributable to members of the Credit Union		**$**	**1,141,762**	$	1,059,523
Non-controlling interest					
Balance, beginning of year			**1,014**		1,032
Net loss			**(2)**		(18)
Non-controlling interest, end of year			**1,012**		1,014
Total equity		**$**	**1,142,774**	$	1,060,537

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 2014	Year ended October 31 2013
Cash flows from (used in) operating activities		
Net income	**$ 68,513**	$ 73,233
Adjustments for non-cash items and others		
Net interest income	**(346,298)**	(333,511)
Provision for credit losses	**12,532**	10,722
Net income attributable to non-controlling interest	**–**	(18)
Share of profits from investments in associates	**(10,529)**	(21,538)
Depreciation and amortization	**18,322**	16,244
Impairment of intangible assets	**37**	1,295
Gain on assets held for sale	**(557)**	(228)
Loss on sale of property and equipment	**371**	625
Income taxes	**20,336**	22,672
Adjustments for net changes in operating assets and liabilities		
Change in members' loans	**(734,785)**	(1,074,713)
Change in members' deposits	**692,532**	819,955
Change in assets held for sale	**4,279**	4,684
Change in derivatives	**(639)**	(2,854)
Net change in other assets, provisions, and trade payables and other liabilities	**21,747**	2,591
Income taxes received and paid, net	**(26,056)**	(19,309)
Interest received	**493,127**	471,743
Interest paid	**(143,392)**	(134,639)
Net cash from (used in) operating activities	**69,540**	(163,046)
Cash flows (used in) from investing activities		
Additions to intangible assets	**(12,436)**	(18,368)
Additions to property and equipment and investment property	**(7,869)**	(12,631)
Proceeds on disposal of property and equipment, and investment property	**123**	3,224
Proceeds on disposal of assets held for sale	**805**	644
Purchase of Alberta Central shares	**(9,306)**	(9,500)
Distributions from Alberta Central	**8,411**	29,056
Investments	**(210,929)**	108,103
Net cash (used in) from investing activities	**(231,201)**	100,528
Cash flows (used in) form financing activities		
Advances of term loans payable and line of credit	**575,000**	–
Repayment of term loans payable and line of credit	**(475,000)**	–
Advances of secured borrowing	**49,224**	24,177
Repayment of secured borrowing	**(18,326)**	(6,547)
Repayment of obligation under finance leases	**–**	(115)
Dividend paid	**–**	(588)
Tax recovery on dividend paid	**4,869**	4,482
Shares issued	**27,273**	25,533
Shares redeemed	**(18,876)**	(18,946)
Net cash from financing activities	**144,164**	27,996
(Decrease) in cash and cash equivalents	**(17,497)**	(34,522)
Cash and cash equivalents, beginning of year	**142,310**	176,832
Cash and cash equivalents, end of year	**$ 124,813**	$ 142,310

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 Act. The Credit Union serves 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 Standard Board ("IASB") and used the accounting policies the Credit Union adopted for its financial statements for the year ending October 31, 2014. 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, 2014 were authorized for issue by the Board of Directors (the "Board") on January 22, 2015.

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 the related disclosures. Estimates and underlying assumptions required under IFRS are best estimates undertaken in accordance with the applicable standard and are reviewed on a continual basis.

The use of estimates and assumptions have been made 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 life of property, equipment, 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 the 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 Special Purpose Entities ("SPEs"), and accounting for investments in associates.

3. SIGNIFICANT ACCOUNTING POLICIES

Adoption of standards in the current year

IFRS 7 Financial Instruments: Disclosures

The standard has been amended requiring an entity to disclose information to enable users of the financial statements to evaluate the effect or potential effect of netting arrangements on the entity's financial position including the effect or potential effect of rights of set-off associated with the entity's recognized financial assets and recognized financial liabilities. The Credit Union had no change in disclosure as a result of the adoption of IFRS 7.

IFRS 10 Consolidated Financial statements

IFRS 10 Consolidated Financial Statements, superseded IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 uses control as the single basis for consolidation, regardless of the nature of the investee, eliminating the risks and rewards approach included in SIC-12. The three elements of control are power over the investee, exposure or rights to variable returns from involvement with the investee and the ability to use power over the investee to affect the amount of the investor's returns. IFRS 10 includes guidance on the assessment of control.

Under IFRS 10 all controlled subsidiaries still require consolidation with all intercompany transactions eliminated. All entities must use the same accounting policies and reporting date.

Management has reassessed its ownership of associates in accordance with IFRS 10's revised control definition and guidance and has concluded the Credit Union does not control Credit Union Alberta Central Limited ("Alberta Central"). IFRS 10 has been adopted retrospectively and has had no impact on the Credit Union financial statements.

IFRS 11 Joint Arrangements — replaces IAS 31 and SIC-13

The standard replaces IAS 31 and SIC-13 and replaces the three current categories of joint arrangements with two categories – joint operations and joint ventures. Joint ventures will be required to be accounted for using equity accounting whereas for a joint operation an entity will recognize its share of the joint operations' assets liabilities revenues and expenses.

As a result of the replacement of IAS 31, IAS 28 has been expanded to provide consistent guidance on equity accounting for both associates and joint ventures. IFRS 11 has been adopted retrospectively and has had no impact on the Credit Union financial statements.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 Disclosure of Interest in Other Entities, requires extensive disclosures relating to an entity's interest in subsidiaries, joint arrangements, associates and unconsolidated structured entities as well as any significant judgments and assumptions related to the determination of control or significant influence. An entity is required to disclose the information that helps users of financial statements evaluate the nature of, and risk associated with, its interest in other entities and the affects of those interest on its financial statements.

The application of IFRS 12 required additional disclosures of the Credit Union's investments in other entities. These additional disclosures are contained in Note 15, and were applied for the comparative period.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IFRS 13 Fair Value Measurement

IFRS 13 Fair Value Measurement issued establishes a single source of guidance for fair value measurement under IFRS. IFRS 13 defines fair value, provides guidance on its determination and introduces consistent requirements for disclosures on fair value measurements.

The Credit Union was required to provide additional fair value disclosures as a result of the adoption of IFRS 13. These disclosures can be found in Note 29, and are included for the comparative figures.

IAS 19 Employee Benefits

The standard has been amended to remove the option to defer recognition of actuarial gains (losses), commonly known as the corridor method, and to require that these gains (losses) be recognized in other comprehensive income immediately. In addition, the net change in defined benefit liabilities and assets is now split into three elements: service cost, net interest and remeasurements. Remeasurements will be immediately recognized in other comprehensive income. There is no change to the financial statements as a result of adopting these amendments.

Basis of Consolidation
Subsidiaries

The financial statements of the Credit Union include the assets, liabilities, income and expenses of subsidiaries, and SPEs for which the Credit Union has determined that it has control over the economic benefits of the entity. All intercompany transactions and balances are eliminated on consolidation.

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

- Existing rights to direct relevant activities of the company, those activities that significantly affect returns;
- Exposure, or rights, to variable returns from 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.

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

The Credit Union’s 100% ownership interest of the following entities:

- All Source Mortgages Ltd., which provides mortgage brokerage services to a number of lenders, including the Credit Union;
- Servus Wealth Strategies Ltd., which provides wealth management services;
- 1358938 Alberta Ltd., which provides the Credit Union with air transportation services.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Credit Union also has a 51% ownership interest in the following:

· 1626210 Alberta Ltd., which owns rental properties.

The Credit Union is also considered to control the benefits of three registry services which are SPEs and have been consolidated.

Non-Controlling Interest

Other party's interest in a subsidiary (1626210 Alberta Ltd.) of the Credit Union is reported in Equity as non-controlling interests. Income attributable to non-controlling interests is reported in the consolidated statement of income and comprehensive income as an allocation of net income and total comprehensive income.

Investments in Associates

Investments in associates 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 and Crelogix Credit Group Inc. ("Crelogix") are classified as investments in associates.

Investments in associates are accounted for using the equity method and are initially recognized at cost. The Credit Union's share of its associates' post acquisition net income or loss from these entities is recognized as share of profits from associates in the consolidated statement of income and comprehensive income. Dividends received are recorded as a reduction in the investment.

The Credit Union holds over 50% of the common shares in Alberta Central. The rest are owned by various credit unions within Alberta. The Credit Union is limited, by the bylaws, to only 5 positions out of a possible 13 appointed board members.

Goodwill

Goodwill is recognized as the excess of the fair value of the consideration transferred plus the recognized amount of any non-controlling interest in the acquiree less the fair value of the identifiable assets, liabilities and contingent liabilities acquired. Any goodwill recognized as an asset is tested for impairment annually. When the excess is negative (negative goodwill), it is recognized immediately in net income. The Credit Union has not recognized any goodwill on the consolidated statement of financial position.

Financial Instruments – Recognition and Measurement

Financial assets and financial liabilities, including derivatives, are recognized on the consolidated statement of financial position when the Credit Union becomes a party to the contractual provisions of a financial instrument or non-financial derivative contract. The Credit Union recognizes financial instruments at the trade date. All financial instruments are initially measured at fair value. Subsequent measurement is dependent upon the financial instrument's classification. Transaction costs relating to financial instruments designated as fair value through profit or loss ("FVTPL") are expensed as incurred. Transaction costs for other financial instruments are capitalized on initial recognition.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A financial instrument is classified as held for trading if it is acquired principally for the purpose of selling or repurchasing it 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; or
- The financial instruments are part of a portfolio of financial instruments which is risk managed and reported to senior management on a fair value basis.

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

Financial instruments designated as held at FVTPL consist of the retained right for future excess spread on securitized residential mortgages and the liability portion of investment shares. The retained right for future excess spread on securitized residential mortgages is recorded with other assets on the consolidated statement of financial position.

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, other than those which the Credit Union intends to sell in the short term, which are classified as held for trading, and those that are designated as held at FVTPL. These are initially recognized at fair value.

Loans and receivables include cash and cash equivalents, Alberta Central term deposits, mortgage pools, debentures, trade receivables and members' loans. Subsequent measurement is at amortized cost using the effective interest method less any accumulated impairment losses. 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 is recognized in the consolidated statement of financial position as an allowance for credit losses.

Held-to-Maturity Financial Assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities and the Credit Union has the intention and ability to hold the investment to maturity. These are initially recognized at fair value including direct and incremental transaction costs and are subsequently measured at amortized cost using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interest on held to maturity investments is included in net interest income. No financial assets are classified as held-to-maturity for the year ended October 31, 2014.

Available-for-sale financial assets

Available-for-sale financial assets are intended to be held for an indefinite period of time, which 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. No financial assets are classified as available-for-sale that are measured at fair value for the year ended October 31, 2014.

The Credit Union holds other investments in companies that are part of the credit union system which are not traded on an active market. As 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 net income when the investment is derecognized or impaired.

Other financial liabilities

Financial liabilities not classified as fair value through profit or loss fall into this category and include members' deposits, 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 ownership of the assets have been transferred.

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

The fair value of mortgages sold and retained right to future excess spread are determined using pricing models based on key assumptions such as expected losses, prepayments and discount rates that are commensurate with the risks involved. In instances where the Credit Union's securitizations and other transfers of receivables do not result in a transfer of contractual cash flows of the receivables or an assumption of an obligation to pay the cash flows of the receivable to a transferee, the Credit Union has not derecognized the transferred receivables and has instead recorded a secured borrowing with respect to any consideration received.

The retained interest to future excess spread is designated as held at FVTPL and changes in fair value are recognized in net interest income in the consolidated statement of income and comprehensive income.

The premiums and retained servicing liability are recorded in other liabilities on the consolidated statement of financial position and are amortized over the term of the transferred mortgages to net interest income in the consolidated statement of income and comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

Cash and cash equivalents, which comprise cash on hand, 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, foreign exchange 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.

Derivative financial instruments are measured at fair value on the consolidated statement of financial position. Derivatives with a favourable fair value are recorded in derivative financial assets. Derivatives with an unfavourable fair value are recorded in other liabilities. 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.

With the use of 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 an individual loan and loan portfolio level. 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 or principal is contractually 90 days past due are considered to be impaired unless management determines that the loan is fully secured and in the process of collection.

The amount of the allowance is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted for fixed rate loans at the loan's original effective interest rate and for variable rate loans at the effective rate at the time of impairment. Cash flows arising from the recovery and sale of collateral are included, whether or not foreclosure is probable. The carrying amount of the loan 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.

Where individual loans are not considered to be specifically impaired, they are placed into groups of loans with similar risk profiles and collectively assessed for losses that have been incurred but not yet identified.

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 which are not reflected in historical trends. Changes in the collective allowance account are recognized within the provision for credit losses in the consolidated statement of income and comprehensive income.

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

Following impairment, interest income continues to be recognized using the original effective rate of interest. This rate is then used to discount the future cash flows of the impairment for the purpose of measuring the potential loss. If, in a subsequent period, the amount of the impairment loss decreases

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 or collective 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 writes off amounts charged to the allowance account against the carrying value of an impaired loan when there is no realistic prospect of future recovery and all collateral has been realized. The Credit Union seeks to work with the members to bring their accounts to a current status before taking possession of collateral.

Other financial assets

The Credit Union assesses impairment of its other financial assets, other than financial assets designated at FVTPL. Management considers 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 in net income. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in net income.

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 are not reversed. Reversals of impairments are not recognized for available-for-sale financial assets that are measured at cost.

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, or (ii) its recoverable amount at the date of the subsequent decision not to sell. Any required adjustments to the carrying amount of an asset that ceases to be classified as held for sale will be transferred to net income in the period in which the recognition criteria are no longer met.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset and borrowing costs. 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 in net income 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 net within general operating expenses in the consolidated statement of income and comprehensive income.

Depreciation is recognized in net income on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Credit Union will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives are as follows:

Buildings	20 to 40 years
Furniture, office equipment and vehicles	3 to 20 years
Airplane	10 years
Leasehold improvements	5 to 10 years
Computer equipment	3 to 5 years
Equipment under finance leases	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, rather than for sale or use in the business. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 the disposal. Gains or losses arising from the disposal of investment property is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognized in net income in the year of the disposal.

Depreciation is recognized in net income on a straight-line basis over the estimated useful lives of the investment property. Land is not depreciated. The estimated useful lives of buildings range from 20 to 40 years.

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 expenditure that is 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 in net income 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 net within general operating expenses in the consolidated statement of income and comprehensive income.

Amortization is recognized in net income on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

Computer software and development costs	3 to 12 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 which are not yet available for use or which have indefinite lives are tested for impairment annually.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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.

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 in net income on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense on a straight-line basis over the term of the lease.

The Credit Union as a lessor

Arrangements containing leases in which the Credit Union retains substantially all the risks and rewards of ownership are classified as operating leases. Rentals received under operating leases are recognized in net income on a straight line-basis over the term of the lease. Lease incentives provided are recognized as an integral part of the total lease income on a straight-line basis over the term of the lease.

Provisions

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A provision for onerous contracts is recognized when the expected benefits derived by the Credit Union from a contract are lower than the unavoidable cost of meeting its obligation under the contract. The provision for onerous contract is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

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, 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 the 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.

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 and life insurance. The Credit Union's net obligation in respect of both defined benefit plans is actuarially determined using the projected benefit method prorated on service and management's best estimate of turnover rates, salary escalation, retirement ages, expected healthcare 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 in net income, 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. Dividends will be calculated on the Credit Union fiscal year and paid annually.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 ("IFRIC") 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 at the difference between the fair value of the share as a whole and the fair value of the liability element. All cash dividends on investment shares are recorded through the consolidated statement of income and comprehensive income. All non-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.

Interest income and expense

Interest income and expense earned and charged on Members' loans, deposits and investments is recognized in net income using the effective interest method. The effective interest method calculates the amortized cost of a financial asset or a financial liability and allocates the interest income or interest expense over the relevant period using the effective interest rate. The effective interest rate is the rate that discounts the estimated future cash receipts through the expected life of the financial asset or liability to the net carrying amount 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 the Members.

Commissions and fees

Commissions and fees that are considered an integral part of the effective interest rate are included in the measurement of the effective interest rate. 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 the Members. Other fees and commissions, such as mutual fund trailer fees, are recognized when earned.

Dividend income

Dividends on investments are recognized in investment income when declared. Distributions from investments in associates are recognized as a reduction in the investment when declared.

Patronage Allocation to Members

Patronage allocations to Members are recognized in net income when circumstances indicate 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

Income tax expense comprises current and deferred tax. Current and deferred taxes are recognized in net income except to the extent that they relate to a business combination or 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 is recognized. 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 and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on 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 in the consolidated statement of income and comprehensive income.

4. FUTURE ACCOUNTING CHANGES

The Credit Union is currently assessing the impact of adopting the following standards on the financial statements. At this time, the impact of these changes to the Credit Union is unknown.

- **Effective for the Credit Union – November 1, 2014**
  - **IAS 32 Financial Instruments: Presentation**
    The standard has been amended requiring the presentation of financial assets and financial liabilities on a net basis when doing so reflects an entity's expected future cash flows from settling two or more separate financial instruments.
  - **IFRIC 21 Levies**
    In May 2013, the IASB issued IFRIC 21 which provides guidance on when to recognize a liability to pay a levy that is accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. It also addresses the accounting for a liability to pay a levy whose timing and amount is uncertain.
- **Effective for the Credit Union – November 1, 2017**
  - **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.
- **Effective for the Credit Union – November 1, 2018**
  - **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 (IAS 39).

    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 as at FVTPL, fair value through other comprehensive income (FVTOCI) or amortized cost. For Financial liabilities, IFRS 9 includes the requirements for classification and measurement previously included in IAS39.

    IFRS 9 also introduces an expected loss impairment model for all financial assets not as at FVTPL. The model has three stages: 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.

    In November 2013, the IASB introduced a new hedge accounting model, and allowed early adoption of the own credit provisions of IFRS 9.

(Canadian $ thousands, except per share amounts)

5. CASH AND CASH EQUIVALENTS

		As at October 31 2014		As at October 31 2013
Cash on hand	**$**	**13,485**	$	16,996
ATM		**10,566**		11,431
Foreign exchange cash		**284**		105
Cash with Alberta Central		**101,892**		117,891
Cheques and items in transit		**(1,414)**		(4,113)
Total	**$**	**124,813**	$	142,310

6. INVESTMENTS

		As at October 31 2014		As at October 31 2013
Term deposits with Alberta Central	**$**	**1,012,134**	$	801,205
Debentures		**1,250**		1,250
Other		**794**		794
		1,014,178		803,249
Accrued interest		**1,538**		723
Total	**$**	**1,015,716**	$	803,972

7. MEMBERS' LOANS

		Gross Amount		**Specific allowance**		**Collective allowance**		**Net Amount**		**Impaired Loans**
As at October 31, 2014										
Residential mortgages	**$**	**7,085,304**	**$**	**804**	**$**	**931**	**$**	**7,083,569**	**$**	**1,530**
Commercial mortgages and loans		**3,892,143**		**27,210**		**2,282**		**3,862,651**		**45,251**
Consumer loans		**1,156,643**		**2,244**		**4,089**		**1,150,310**		**3,847**
Agricultural mortgages and loans		**330,056**		**85**		**2**		**329,969**		**625**
		12,464,146		**30,343**		**7,304**		**12,426,499**		**51,253**
Accrued interest		**43,441**		**1,954**		**517**		**40,970**		**–**
Total	**$**	**12,507,587**	**$**	**32,297**	**$**	**7,821**	**$**	**12,467,469**	**$**	**51,253**

		Gross Amount		Specific allowance		Collective allowance		Net Amount		Impaired Loans
As at October 31, 2013										
Residential mortgages	$	6,607,195	$	655	$	1,217	$	6,605,323	$	2,453
Commercial mortgages and loans		3,656,541		25,145		2,509		3,628,887		34,321
Consumer loans		1,145,942		3,395		2,816		1,139,731		5,032
Agricultural mortgages and loans		330,372		46		21		330,305		47
		11,740,050		29,241		6,563		11,704,246		41,853
Accrued interest		40,841		1,420		502		38,919		–
Total	$	11,780,891	$	30,661	$	7,065	$	11,743,165	$	41,853

(Canadian $ thousands, except per share amounts)

8. ALLOWANCE FOR CREDIT LOSSES

Specific Allowance

	Residential	Commercial	Consumer	Agricultural	Interest	Total
As at October 31, 2013	$ 655	$ 25,145	$ 3,395	$ 46	$ 1,420	$ 30,661
Recoveries of previous loan write offs	5	410	1,226	6	–	1,647
Allowance charged to net income	944	7,108	2,814	33	877	11,776
	1,604	32,663	7,435	85	2,297	44,084
Loans written off	800	5,453	5,191	–	343	11,787
As at October 31, 2014	**$ 804**	**$ 27,210**	**$ 2,244**	**$ 85**	**$ 1,954**	**$ 32,297**

	Residential	Commercial	Consumer	Agricultural	Interest	Total
As at October 31, 2012	$ 155	$ 26,716	$ 3,143	$ 10	$ 1,182	$ 31,206
Recoveries of previous loan write off	2	63	1,293	15	–	1,373
Allowance charged to net income	2,143	1,772	4,350	33	1,138	9,436
	2,300	28,551	8,786	58	2,320	42,015
Loans written off	1,645	3,406	5,391	12	900	11,354
As at October 31, 2013	$ 655	$ 25,145	$ 3,395	$ 46	$ 1,420	$ 30,661

Collective Allowance

	Residential	Commercial	Consumer	Agricultural	Interest	Total
As at October 31, 2013	$ 1,217	$ 2,509	$ 2,816	$ 21	$ 502	$ 7,065
Allowance charged to net income	(286)	(227)	1,273	(19)	15	756
As at October 31, 2014	**$ 931**	**$ 2,282**	**$ 4,089**	**$ 2**	**$ 517**	**$ 7,821**

	Residential	Commercial	Consumer	Agricultural	Interest	Total
As at October 31, 2012	$ 547	$ 1,818	$ 2,973	$ 2	$ 439	$ 5,779
Allowance charged to net income	670	691	(157)	19	63	1,286
As at October 31, 2013	$ 1,217	$ 2,509	$ 2,816	$ 21	$ 502	$ 7,065

9. CREDIT QUALITY OF MEMBERS' LOANS

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

(Canadian $ thousands, except per share amounts)

9. CREDIT QUALITY OF MEMBERS' LOANS (CONTINUED)

As at October 31, 2014	Residential	Commercial	Consumer	Agricultural	Total
Risk Categories					
1 to 5 – Satisfactory risk	**$ –**	**$ 3,809,399**	**$ –**	**$ 327,986**	**$ 4,137,385**
6 – Watch list	**–**	**36,242**	**–**	**1,232**	**37,474**
8 – Impaired risk – performing	**–**	**–**	**–**	**–**	**–**
7 and 9 – Unacceptable/impaired risk – non-performing	**–**	**1,250**	**–**	**213**	**1,463**
Commercial & agricultural mortgages and loans not impaired	**–**	**3,846,891**	**–**	**329,431**	**4,176,322**
Residential mortgages and personal loans not impaired	**7,083,774**	**–**	**1,152,797**	**–**	**8,236,571**
Loans not impaired	**7,083,774**	**3,846,891**	**1,152,797**	**329,431**	**12,412,893**
Loans specifically impaired	**1,530**	**45,251**	**3,847**	**625**	**51,253**
Sub Total	**7,085,304**	**3,892,142**	**1,156,644**	**330,056**	**12,464,146**
Accrued interest	**11,560**	**14,256**	**13,824**	**3,801**	**43,441**
Total	**$ 7,096,864**	**$ 3,906,398**	**$ 1,170,468**	**$ 333,857**	**$ 12,507,587**

As at October 31, 2013	Residential	Commercial	Consumer	Agricultural	Total
Risk Categories					
1 to 5 – Satisfactory risk	$ –	$ 3,587,025	$ –	$ 326,956	$ 3,913,981
6 – Watch list	–	13,884	–	1,869	15,753
8 – Impaired risk – performing	–	36	–	–	36
7 and 9 – Unacceptable/impaired risk – non-performing	–	21,275	–	1,500	22,775
Commercial & agricultural mortgages and loans not impaired	–	3,622,220	–	330,325	3,952,545
Residential mortgages and personal loans not impaired	6,604,742	–	1,140,910	–	7,745,652
Loans not impaired	6,604,742	3,622,220	1,140,910	330,325	11,698,197
Loans specifically impaired	2,453	34,321	5,032	47	41,853
Sub Total	6,607,195	3,656,541	1,145,942	330,372	11,740,050
Accrued interest	12,187	12,669	11,955	4,030	40,841
Total	$ 6,619,382	$ 3,669,210	$ 1,157,897	$ 334,402	$ 11,780,891

- Risk Rating 6: This category includes accounts where there is not a risk for principal or interest at present but performance trend is negative and unless reversed could lead to losses for Servus. This is a transitional rating as the expectation is to be able to upgrade the account within the next 12 month period.
- 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 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. Collection of interest is in doubt but there is no exposure for principal.
- Risk Rating 9: Same criteria that is established for Risk "7" but there is deterioration in 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, 2014

	Residential	Commercial	Consumer	Agricultural	Total
Past due up to 29 days	**$ 121,221**	**$ 12,432**	**$ 14,193**	**$ 3,927**	**$ 151,773**
Past due 30 – 59 days	**20,594**	**20,193**	**4,884**	**1,332**	**47,003**
Past due 60 – 89 days	**8,429**	**2,620**	**1,611**	**119**	**12,779**
Past due over 90 days	**11,965**	**53,559**	**3,591**	**1,558**	**70,673**
Total	**$ 162,209**	**$ 88,804**	**$ 24,279**	**$ 6,936**	**$ 282,228**

Loans past due, as at October 31, 2013

Past due up to 29 days	$ 87,332	$ 17,529	$ 11,982	$ 1,945	$ 118,788
Past due 30 – 59 days	27,860	16,107	5,432	1,623	51,022
Past due 60 – 89 days	8,498	1,533	1,462	295	11,788
Past due over 90 days	15,671	57,749	4,262	2,722	80,404
Total	$ 139,361	$ 92,918	$ 23,138	$ 6,585	$ 262,002

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, 2014

	Residential	Commercial	Consumer	Agricultural	Total
Past due up to 29 days	**$ 121,213**	**$ 12,298**	**$ 13,959**	**$ 3,927**	**$ 151,397**
Past due 30 – 59 days	**20,594**	**19,184**	**4,733**	**1,332**	**45,843**
Past due 60 – 89 days	**8,429**	**2,195**	**708**	**118**	**11,450**
Past due over 90 days	**10,443**	**9,876**	**1,032**	**934**	**22,285**
Total	**$ 160,679**	**$ 43,553**	**$ 20,432**	**$ 6,311**	**$ 230,975**

Loans past due but not impaired as at October 31, 2013

	Residential	Commercial	Consumer	Agricultural	Total
Past due up to 29 days	$ 87,332	$ 17,529	$ 11,589	$ 1,945	$ 118,395
Past due 30 – 59 days	27,788	16,107	5,294	1,623	50,812
Past due 60 – 89 days	8,498	829	878	295	10,500
Past due over 90 days	13,290	24,132	345	2,675	40,442
Total	$ 136,908	$ 58,597	$ 18,106	$ 6,538	$ 220,149

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 the 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 2014	As at October 31 2013
Loans by security:		
Secured by mortgage	$ 9,214,232	$ 8,515,834
Secured by other	2,596,072	2,566,171
Unsecured	697,283	698,886
Total	$ 12,507,587	$ 11,780,891

10. ASSETS HELD FOR SALE

	As at October 31 2014	As at October 31 2013
Foreclosed property	$ 2,055	$ 6,317
Other land and buildings	3,267	3,435
Total	$ 5,322	$ 9,752

11. OTHER ASSETS

	As at October 31 2014	As at October 31 2013
Retained rights to future excess spread	$ –	$ 11
Accounts receivable	4,176	5,463
Prepaid items	5,495	6,932
Total	$ 9,671	$ 12,406

(Canadian $ thousands, except per share amounts)

12. PROPERTY AND EQUIPMENT

	Land	Buildings	Leasehold improve-ment	Furniture, office equipment and vehicles	Computer equipment	Leased equipment	Airplane	Total
Cost								
Balance as at October 31, 2012	$ 25,324	$ 150,634	$ 36,147	$ 35,553	$ 17,637	$ 1,269	$ 975	$ 267,539
Additions	446	2,414	2,884	1,447	5,440	–	–	12,631
Disposals	(223)	(4,509)	(27)	(2,564)	(1,294)	–	–	(8,617)
Transfer to/from assets held for sale	–	(363)	–	–	–	–	–	(363)
Transfer to/from investment property	217	2,553	–	–	–	–	–	2,770
Other transfers	–	(97)	–	–	1,269	(1,269)	–	(97)
Balance as at October 31, 2013	$ 25,764	$ 150,632	$ 39,004	$ 34,436	$ 23,052	$ –	$ 975	$ 273,863
Additions	2	1,834	2,885	910	2,238	–	–	7,869
Disposals	–	(972)	(39)	(1,431)	(776)	–	–	(3,218)
Transfer to/from assets held for sale	(97)	–	–	–	–	–	–	(97)
Transfer to/from investment property	137	(390)	–	–	–	–	–	(253)
Other transfers		204	(204)		966			966
Balance as at October 31, 2014	**$ 25,806**	**$ 151,308**	**$ 41,646**	**$ 33,915**	**$ 25,480**	**$ –**	**$ 975**	**$ 279,130**
Accumulated depreciation								
Balance as at October 31, 2012	$ –	$ 37,338	$ 17,498	$ 19,158	$ 10,159	$ 1,163	$ 325	$ 85,641
Depreciation	–	4,987	2,842	3,605	2,590	106	129	14,259
Disposals	–	(931)	(25)	(2,535)	(1,277)	–	–	(4,768)
Transfer to/from assets held for sale	–	(97)	–	–	–	–	–	(97)
Transfer to/from investment property	–	63	–	–	–	–	–	63
Other transfers	–	(48)	–	5	1,269	(1,269)	–	(43)
Balance as at October 31, 2013	$ –	$ 41,312	$ 20,315	$ 20,233	$ 12,741	$ –	$ 454	$ 95,055
Depreciation	–	4,787	3,019	3,406	2,913	–	129	14,254
Disposals	–	(500)	(39)	(1,409)	(776)	–	–	(2,724)
Transfer to/from investment property	–	107	–	–	–	–	–	107
Other transfers	–	24	–	2	–	–	–	26
Balance as at October 31, 2014	**$ –**	**$ 45,730**	**$ 23,295**	**$ 22,232**	**$ 14,878**	**$ –**	**$ 583**	**$ 106,718**
Net Book Value								
At October 31, 2013	25,764	109,320	18,689	14,203	10,311	–	521	178,808
At October 31, 2014	**25,806**	**105,578**	**18,351**	**11,683**	**10,602**	**–**	**392**	**172,412**

(Canadian $ thousands, except per share amounts)

13. INVESTMENT PROPERTY

		Land		Buildings		Total
Cost						
Balance as at October 31, 2012	$	1,776	$	13,054	$	14,830
Transfer to/from property and equipment		(217)		(2,553)		(2,770)
Disposals		–		(77)		(77)
Balance as at October 31, 2013		1,559		10,424		11,983
Transfer to/from property and equipment		(137)		390		253
Balance as at October 31, 2014	**$**	**1,422**	**$**	**10,814**	**$**	**12,236**
Accumulated depreciation						
Balance as at October 31, 2012	$	–	$	4,425	$	4,425
Depreciation		–		294		294
Transfer to/from property and equipment		–		(63)		(63)
Disposals		–		(77)		(77)
Balance as at October 31, 2013		–		4,579		4,579
Depreciation		–		404		404
Transfer to/from property and equipment		–		(107)		(107)
Balance as at October 31, 2014	**$**	**–**	**$**	**4,876**	**$**	**4,876**
Net Book Value						
At October 31, 2013		1,559		5,845		7,404
At October 31, 2014		**1,422**		**5,938**		**7,360**

The fair value of investment property held at October 31, 2014 was $18,570 (October 31, 2013 $14,199). The fair value of investment property is determined by external valuation on a rotating basis every 3 years.

Income Related To Investment Properties		**October 31 2014**		October 31 2013
Rental income	**$**	**1,410**	$	1,293
Direct operating expense from property generating rental income		**485**		551
Total	**$**	**925**	$	742

Future rental payments receivable are as follows:

		October 31 2014		October 31 2013
Less than 1 year	**$**	**1,267**	$	1,033
Between 1 and 5 years		**1,819**		2,132
More than 5 years		**134**		496
Total	**$**	**3,220**	$	3,661

(Canadian $ thousands, except per share amounts)

14. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

Derivative Financial Assets	As at October 31 2014	As at October 31 2013
Equity-linked options	$ 5,013	$ 7,585
Embedded purchase option	17,987	17,391
Total	$ 23,000	$ 24,976

Derivative Financial Liabilities	As at October 31 2014	As at October 31 2013
Embedded derivatives	$ 4,932	$ 7,546
Interest rate swaps and cap options	–	1
Total	$ 4,932	$ 7,547

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

	1 to 3 months	3 to 12 months	1 to 5 years	As at October 31 2014	As at October 31 2013
Interest rate swaps receive floating, pay fixed	$ –	$ –	$ –	$ –	$ 2,595
Equity-linked options	–	33,300	40,352	73,652	81,183
Total	$ –	$ 33,300	$ 40,352	$ 73,652	$ 83,778

Embedded Derivatives

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risk are not closely related to those of the host contract and the combined contract is not carried at fair value. Identified embedded derivatives are separated from the host contract and are recorded at fair value.

Interest Rate Swaps and Interest Rate Cap Options

Interest rate swaps and interest rate cap options are used for asset/liability management purposes against changes in interest rates. They involve the exchange of interest cash flows between two parties on a specified notional principal.

Equity-Linked Options

Equity-linked options are used to fix costs on term deposit products which pay a return to the deposit holder based on the change in equity market indexes. The embedded derivative in the term deposit product as well as the option derivatives is marked to market through interest income investments. 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 lasts for three years and renews automatically 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. The current agreement is due to renew in September 2015.

(Canadian $ thousands, except per share amounts)

15. INVESTMENTS IN ASSOCIATES

	As at October 31 2014	As at October 31 2013
Alberta Central	$ **163,132**	$ 151,957
Crelogix	**971**	722
Total	$ **164,103**	$ 152,679

Name of associate	Principal activity	Place of incorporation and principal place of business	Proportion of ownership interest/ voting rights held by Credt Union 2014	2013
Alberta Central	Financial services	Alberta	58.6%	57.7%
Crelogix	Financial services	Alberta	32.1%	32.1%

Financial Information for Associates	As at October 31 2014	As at October 31 2013
Alberta Central		
Assets	$ **2,605,066**	$ 2,469,034
Liabilities	**2,316,603**	2,197,609
Revenues	**32,345**	34,613
Income before distributions	**17,179**	34,249
Crelogix		
Assets	$ **18,282**	$ 13,893
Liabilities	**17,507**	13,977
Revenues	**12,203**	10,406
Net income (loss)	**591**	259

Amounts in the above table are not prorated for Servus' portion

Refer to Note 32 Related Party Disclosures for a summarization of related party transactions of Investments in Associates.

	As at October 31 2014	As at October 31 2013
Alberta Central		
Opening Balance	$ **151,957**	$ 150,104
Purchase of additional shares	**9,306**	9,500
Servus' portion of net income	**10,280**	21,410
Distributions	**(8,411)**	(29,057)
Balance	$ **163,132**	$ 151,957
Crelogix		
Opening Balance	$ **722**	$ 594
Servus' portion of net income	**249**	128
Balance	$ **971**	$ 722

(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, 2012	$ 2,100	$ 24,647	$ 19,959	$ 46,706
Additions	305	147	17,916	18,368
Disposals	(50)	(57)	–	(107)
Impairment	–	–	(1,295)	(1,295)
Transfers	–	17	(17)	–
Balance as at October 31, 2013	2,355	24,754	36,563	63,672
Additions	358	2	12,076	12,436
Disposals	(11)	(7,843)	–	(7,854)
Impairment	–	–	(37)	(37)
Transfers	88	23,684	(24,738)	(966)
Balance as at October 31, 2014	**$ 2,790**	**$ 40,597**	**$ 23,864**	**$ 67,251**
Accumulated amortization				
Balance as at October 31, 2012	$ 1,826	$ 19,303	$ –	$ 21,129
Amortization	35	1,656	–	1,691
Disposals	(50)	(57)	–	(107)
Balance as at October 31, 2013	1,811	20,902	–	22,713
Amortization	80	3,584	–	3,664
Disposals	(12)	(7,842)	–	(7,854)
Balance as at October 31, 2014	**$ 1,879**	**$ 16,644**	**$ –**	**$ 18,523**
Net Book Value				
At October 31, 2013	544	3,852	36,563	40,959
At October 31, 2014	**911**	**23,953**	**23,864**	**48,728**

During our impairment testing review of software under development, we determined that a portion of the software will not be used in the future. Consequently, an impairment was recorded by the Credit Union for the costs directly associated with computer software under development. The resulting loss was $37 for the year ended October 31, 2014 (2013 – $1,295) and was 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 net income are:

Income Tax Expense		2014		2013
Current tax expense				
Based on current year taxable income	**$**	**17,618**	$	21,237
Adjustments for (over) provision in prior periods		**(300)**		(380)
Total		**17,318**		20,857
Deferred tax expense				
Origination and reversal of temporary differences		**2,687**		(93)
Increase in tax rate		**331**		1,908
		3,018		1,815
Total	**$**	**20,336**	$	22,672

(b) Reconciliation of effective tax rate:

		2014			2013	
Income before income taxes	**$**	**88,849**		$	95,905	
Income tax expense based on statutory rate		**19,964**	**22.47%**		20,648	21.53%
Effect on non-deductible expenses		**191**	**0.21%**		214	0.22%
Future tax rate change		**331**	**0.37%**		1,908	1.99%
Other		**(150)**	**(0.17%)**		(98)	(0.10%)
Total income tax expense	**$**	**20,336**	**22.88%**	$	22,672	23.64%

(Canadian $ thousands, except per share amounts)

17. INCOME TAXES (CONTINUED)

(c) Deferred tax assets and liabilities

The movement in deferred tax assets and liabilities are:

Deferred Tax Assets and Liabilities	**As at October 31 2013**	**Recognized in net income**	**Recognized in OCI**	**As at October 31 2014**
Subsidiary deferred tax asset:				
Subsidiary Property and equipment	**$ (63)**	**$ 16**	**$ –**	**$ (47)**
Subsidiary Non-capital losses	**82**	**9**	**–**	**91**
Total	**19**	**25**	**–**	**44**
Servus deferred tax liability:				
Member loans	**804**	**132**	**–**	**936**
Property and equipment	**(3,835)**	**(2,699)**	**–**	**(6,534)**
Derivative instruments	**(4,355)**	**(124)**	**–**	**(4,479)**
Investment in associate	**(7,485)**	**(527)**	**–**	**(8,012)**
Employee benefits	**1,879**	**(150)**	**(133)**	**1,596**
Other payables	**1,577**	**282**	**–**	**1,859**
Non-capital losses	**56**	**43**	**–**	**99**
Net-capital losses	**–**	**–**	**–**	**–**
Total	**(11,359)**	**(3,043)**	**(133)**	**(14,536)**
Net Consolidated Deferred tax	**$ (11,340)**	**$ (3,018)**	**$ (133)**	**$ (14,492)**

	As at October 31 2012	Recognized in net income	Recognized in OCI	As at October 31 2013
Subsidiary deferred tax asset:				
Subsidiary Property and equipment	$ (50)	$ (13)	$ –	$ (63)
Subsidiary Non-capital losses	110	(28)	–	82
Total	60	(41)	–	19
Servus deferred tax liability:				
Member loans	742	62	–	804
Property and equipment	(2,249)	(1,586)	–	(3,835)
Derivative instruments	(3,144)	(1,211)	–	(4,355)
Investment in associate	(7,919)	434	–	(7,485)
Employee benefits	1,699	241	(61)	1,879
Other payables	1,344	233	–	1,577
Non-capital losses	–	56	–	56
Net-capital losses	3	(3)	–	–
Total	(9,524)	(1,774)	(61)	(11,359)
Net Consolidated Deferred tax	$ (9,464)	$ (1,815)	$ (61)	$ (11,340)

(Canadian $ thousands, except per share amounts)

18. BORROWINGS

	Maturity Date	Interest rate	As at October 31 2014	As at October 31 2013
Term Loans and lines of credit				
Alberta Central	November 5, 2014	2.0000%	$ **50,000**	$ –
Alberta Central Lines of credit	Revolving	2.5000%	–	–
Caisse Centrale Desjardins	November 21, 2014	1.6750%	**50,000**	–
Accrued interest on borrowings			**168**	–
Securitization				
Pool 9301	July 31, 2014	1.1200%	–	17,630
Pool 9401	June 1, 2019	1.8720%	**29,359**	–
Pool 9402	September 1, 2019	1.9100%	**9,947**	–
Pool 9403	September 1, 2019	1.9050%	**9,222**	–
Total			$ **148,696**	$ 17,630

Term Loans and Line of Credit
Alberta Central

The Credit Union has a credit facility agreement with Alberta Central in the aggregate amount of $800,000 comprising a revolving demand operating line of credit and revolving term loans. Interest on the line of credit is payable monthly at Alberta Central's prime rate for Canadian dollar advances and Alberta Central's US base rate on US dollar advances, in both cases plus or minus the applicable discount or margin of Alberta Central in effect from time to time. The facility is renewable annually.

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

Caisse Centrale Desjardins

The Credit Union also has a credit facility agreement with Caisse Central Desjardins ("CCD"). The facility is a 364 day revolving term loans available in Canadian dollars renewable annually, with a maximum credit available of $100,000.

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 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.

Securitization

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

(Canadian $ thousands, except per share amounts)

18. BORROWINGS (CONTINUED)

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 decognizition 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 ownerships have been transferred.

The Credit Union has determined that an amount of $49,224 (2013 – $24,177) raised from securitzation transactions during the year should be accounted for as a secured borrowing as 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, 2014, of the associated residential mortgages held as security is $48,941 (2013 – $17,630). 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.

19. MEMBERS' DEPOSITS

	As at October 31 2014	As at October 31 2013
Demand accounts	**$ 6,302,764**	$ 5,986,588
Term deposits	**4,254,029**	3,984,088
Registered plans	**1,942,273**	1,836,965
Other deposits	**10,308**	9,201
	12,509,374	11,816,842
Accrued interest	**60,175**	54,040
Total	**$ 12,569,549**	$ 11,870,882

20. TRADE PAYABLES AND OTHER LIABILITIES

	As at October 31 2014	As at October 31 2013
Cheques and other items in transit	**$ 51,267**	$ 43,554
Accounts payable	**72,480**	62,117
Dividend and patronage to members	**28,332**	27,420
Deferred income	**3,600**	3,747
Premium and servicing liability	**–**	1
Total	**$ 155,679**	$ 136,839

(Canadian $ thousands, except per share amounts)

21. PROVISIONS

As at October 31, 2014	**Legal and contractual claims**	**Onerous Contracts**	**Total**
Balance, beginning of year	**$ 454**	**$ –**	**$ 454**
Incurred	**59**	**–**	**59**
Settled	**(3)**	**–**	**(3)**
Balance, end of year	**$ 510**	**$ –**	**$ 510**

As at October 31, 2013	Legal and contractual claims	Onerous Contracts	Total
Balance, beginning of year	$ 2,250	$ –	$ 2,250
Incurred	65	–	65
Settled	(1,850)	–	(1,850)
Reversed	(11)	–	(11)
Balance, end of year	$ 454	$ –	$ 454

The Credit Union is subject to legal and contractual claims. The amount provided for as legal and contractual claims represents management's best estimate of the Credit Union's liability related to legal and contractual disputes for which it is probable that an amount will be paid. No amount is provided for disputes for which it is not probable that an amount will be paid. Uncertainty exists around whether a dispute will be settled by negotiation or if the Credit Union will be successful in defending the claim in court.

22. EMPLOYEE BENEFITS

	2014	2013
Short-term employee benefits	**$ 174,268**	$ 170,064
Post-employement benefits	**8,502**	8,065
Termination benefits	**131**	159
Total	**$ 182,901**	$ 178,288

Employee benefits expense is recognized in personnel expenses in the consolidated statement of income and comprehensive income. Other expenses related to employees, but that are not classified as the type of benefits listed above, are also included in personnel expenses.

Plan Cost	**Pension Plans**	**Other Benefit Plans**	**2014**	2013
Net benefit plan cost in net income				
Current service cost	**$ 156**	**$ 33**	**$ 189**	$ 193
Interest cost	**181**	**72**	**253**	232
Total	**337**	**105**	**442**	425
Defined contribution registered retirement savings plan – Credit Union contributions	–	–	**8,499**	8,099
Total	**337**	**105**	**8,941**	8,524
Actuarial (gains) losses recognized in other comprehensive income	**115**	**(562)**	**(447)**	146
Total	**$ 452**	**$ (457)**	**$ 8,494**	$ 8,670

(Canadian $ thousands, except per share amounts)

22. EMPLOYEE BENEFITS (CONTINUED)

Accrued benefit obligation and liability	**Pension Plans**	**Other Benefit Plans**	**As at October 31 2014**	As at October 31 2013
Unfunded accrued benefit obligation				
Balance, beginning of year	**$ 4,375**	**$ 2,908**	**$ 7,283**	$ 7,570
Current service cost	**156**	**33**	**189**	193
Interest cost	**181**	**72**	**253**	232
Benefits paid	**(289)**	**(102)**	**(391)**	(429)
Actuarial (gain) loss	**108**	**(701)**	**(593)**	(283)
Balance, end of year	**$ 4,531**	**$ 2,210**	**$ 6,741**	$ 7,283

	Pension Plans	**Other Benefit Plans**	**2014**	2013
Included in personnel expense				
Current service cost	**$ 156**	**$ 33**	**$ 189**	$ 193
Interest cost	**181**	**72**	**253**	232
Benefits paid	**(289)**	**(102)**	**(391)**	(429)
Total	**$ 48**	**$ 3**	**$ 51**	$ (4)

	Pension Plans		**Other Benefit Plans**	
	2014	2013	**2014**	2013
Discount rate	**3.5% to 7.0%**	3.49% to 7.0%	**2.2%**	2.5%
Rate of compensation increase	**3.45%**	4.0%	**3.45%**	4.0%

Changes in the assumed health care cost trend rates for the post-retirement benefit plans for the period ending October 31, 2014 are:

Effect on:	1% increase	1% decrease
Net benefit cost	$ 1	$ 4
Accrued benefit obligation	40	158

Experience adjustments	**2014**	2013
Accrued benefit obligation and plan deficit	**$ 6,741**	$ 7,283
Experience gain	**(593)**	(283)
Defined benefit contributions expected to be paid in 2015		$ 378

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 1 share to retain membership in the Credit Union; and
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 5 years written notice;
f) Dividends are not cumulative and subject to the Credit Union's dividend policy and approval of the Board of Directors; and
g) Redeemable at $1 subject to the Credit Union's redemption policy, including limitation to no more than 10% of the outstanding balance and approval by the Board of Directors.

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

(Canadian $ thousands, except per share amounts)

23. SHARE CAPITAL (CONTINUED)

	Issued and outstanding as at October 31 2013	Issued	Redeemed and transferred	Dividends declared	Issued and outstanding as at October 31 2014
Common shares total	$ 418,161	$ 27,273	$ (16,130)	$ 16,262	$ 445,566
Investment shares					
Series A	49,007	–	(1,131)	2,385	50,261
Series B	7,206	–	(258)	347	7,295
Series C	20,113	–	(607)	972	20,478
Series D	29,435	–	(588)	1,437	30,284
Series E	4,110	–	(132)	223	4,201
Series F	662	–	(76)	29	615
Series G	315	–	46	18	379
Investment shares total	$ 110,848	$ –	$ (2,746)	$ 5,411	$ 113,513
Share capital total	$ 529,009	$ 27,273	$ (18,876)	$ 21,673	$ 559,079

	Issued and outstanding as at October 31 2012	Issued	Redeemed	Dividends declared	Issued and outstanding as at October 31 2013
Common shares total	$ 393,027	$ 25,533	$ (15,899)	$ 15,500	$ 418,161
Investment shares					
Series A	48,167	–	(1,485)	2,325	49,007
Series B	7,224	–	(18)	–	7,206
Series C	19,846	–	(688)	955	20,113
Series D	28,803	–	(765)	1,397	29,435
Series E	4,169	–	(59)	–	4,110
Series F	574	–	60	28	662
Series G	389	–	(92)	18	315
Investment shares total	$ 109,172	$ –	$ (3,047)	$ 4,723	$ 110,848
Share capital total	$ 502,199	$ 25,533	$ (18,946)	$ 20,223	$ 529,009

2014	Common Shares Equity Portion	Investment Shares Equity Portion	Total Equity	Investment Shares Liability Portion
As at October 31, 2013	$ 418,161	$ 110,848	$ 529,009	$ 449
Issued	27,273	–	27,273	–
Redeemed	(16,130)	(2,706)	(18,836)	–
Transferred	–	(40)	(40)	40
Share dividend declared	16,262	5,411	21,673	–
As at October 31, 2014	$ 445,566	$ 113,513	$ 559,079	$ 489
2013				
As at October 31, 2012	$ 393,027	$ 109,172	$ 502,199	$ 471
Issued	25,533	–	25,533	–
Redeemed	(15,899)	(3,069)	(18,968)	–
Transferred	–	22	22	(22)
Share dividends declared	15,500	4,723	20,223	–
As at October 31, 2013	$ 418,161	$ 110,848	$ 529,009	$ 449

(Canadian $ thousands, except per share amounts)

23. SHARE CAPITAL (CONTINUED)

Total patronage and dividends paid in cash or shares	**2014**	2013
Patronage to members in cash	$ **28,259**	$ 26,655
Common share dividend	**16,262**	15,500
Investment share dividend	**5,411**	4,723
Investment share dividend in cash	–	588
	$ **49,932**	$ 47,466

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.

Dividend rate (%)	**2014**	2013
Common share	**4.00%**	4.00%
Investment share	**5.00%**	5.00%

24. INVESTMENT INCOME

	2014	2013
Investment income on loans and receivables other than members' loans	$ **9,264**	$ 8,480
Unrealized gain on derivative instruments	**6**	424
Realized loss on derivative instruments	–	(4)
Total	$ **9,270**	$ 8,900

25. OTHER INTEREST EXPENSE

	2014	2013
Interest expense on term loans	$ **748**	$ 585
Interest expense on line of credit	**1,390**	1,284
Interest expense on secured borrowing	**282**	211
Total	$ **2,420**	$ 2,080

26. OTHER INCOME

	2014	2013
Commissions and fees	$ **45,611**	$ 44,895
Account service charges	**26,633**	26,668
Foreign exchange income	**4,335**	4,119
Operating lease income	**1,454**	1,323
Other	**2,336**	3,737
Total	$ **80,369**	$ 80,742

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, and
- 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 build retained earnings to an amount sufficient on its own to meet regulatory requirements for capital as a percent of assets.

The Credit Union has established processes to meet its objectives and comply with regulation. The Credit Union follows policies 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 (ICAAP) which takes a long term perspective of capital requirements using various scenarios.

Should the Credit Union not comply with its legislated capital adequacy requirements, the CEO and CFO would immediately notify the Board Chair, the Audit and Finance Committee Chair, and the Corporation. The Board of Directors would be informed at their 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 and regulated by the Corporation using a risk weighted and total asset approach. Total capital consists of both primary and secondary capital. For the year ended October 31, 2014, the Credit Union is required by regulation to hold capital equal to or exceeding the greater of 4.0 percent of total assets and 10.5 percent of risk weighted assets.

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.

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

(Canadian $ thousands, except per share amounts)

27. CAPITAL MANAGEMENT (CONTINUED)

Risk weighted assets are determined by reviewing each grouping of loans and other assets and assigning a risk weighting using definitions and formulas set out in the Act and by the Corporation. The more risk associated with an asset, the higher weighting is 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, 2014 and 2013, the Credit Union's capital ratio was greater than the minimum requirement. The following components of regulatory capital were reported:

	2014	2013
Primary Capital:		
Adjusted retained earnings[1]	**$ 531,489**	$ 482,538
Common shares	**445,566**	418,161
Investment shares	**114,002**	111,297
Total primary capital	**1,091,057**	1,011,996
Secondary Capital:		
Collective allowance for credit losses	**7,821**	7,065
Deferred income tax liabilities	**14,536**	11,359
Total secondary capital	**22,357**	18,424
Less Deductions:		
Intangible assets	**(48,728)**	(40,959)
Deferred income tax asset	**(44)**	(19)
Total Capital Available	**$ 1,064,642**	$ 989,442
Total capital as % of risk weighted assets	**13.24%**	13.02%
Total capital as % of assets	**7.58%**	7.54%

1) Net of derivative assets and net share of associates assets.

28. GUARANTEES, COMMITMENTS AND CONTINGENT LIABILITES

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; or

(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 statement but are presented in the tables below.

28. GUARANTEES, COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

Standby Letters of Credit and Letters of Guarantee

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

	As at October 31 2014	As at October 31 2013
Standby letters of credit	**$ 80,824**	$ 89,949

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 $15,000 per claim subject to an annual maximum of $30,000.

Other Indirect Commitments

In the normal course of business, various indirect commitments are outstanding which are not reflected on the consolidated statement of financial position. These may include:

(i) Commercial letters of credit which require the Credit Union to honour drafts presented by a third party when specific activities are completed.

(ii) Commitments to extend credit which represent undertakings to make credit available in the form of loans or other financings for specific amounts and maturities, subject to specific conditions.

The financial commitments are subject to the Credit Union's normal credit standards, financial controls and monitoring procedures. The table below 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 which are not reflected on the consolidated statement of financial position.

(Canadian $ thousands, except per share amounts)

28. GUARANTEES, COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

Commitments to extend credit	As at October 31 2014	As at October 31 2013
Original term to maturity of one year or less	$ 2,795,199	$ 2,491,616
Original term to maturity of more than one year	101,805	346,040
Total	$ 2,897,004	$ 2,837,656

Property and equipment and intangible assets expenditure commitments	As at October 31 2014	As at October 31 2013
Total contractual amount	$ 10,376	$ 3,060
Cost to date	6,094	2,713
Remaining commitment	$ 4,282	$ 347

Contractual Obligations

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

	Property operating leases	Other contractual obligations*	Total
Within 1 year	$ 9,189	$ 2,397	$ 11,586
Between 1 and 5 years	33,034	2,484	35,518
After 5 years	10,499	750	11,249
Total	$ 52,722	$ 5,631	$ 58,353

* excludes expenditures on banking system

Commitment to expenditures on banking system	As at October 31 2014	As at October 31 2013
Within 1 year	$ 1,203	$ 4,364
Between 1 and 5 years	893	1,672
After 5 years	21	–
Total	$ 2,117	$ 6,036

(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 value of items that are not considered financial assets, such as property and equipment and investments in associates.

		2014		
	Levels	**Book Value**	**Fair Value**	**Fair value difference**
Financial Instrument Assets				
Cash and cash equivalents (a)	1	$ 124,813	$ 124,813	$ –
Interest bearing deposits with financial institutions	1	1,013,657	1,013,672	15
Assets at amortized cost	2	2,059	2,059	–
Assets at fair value through profit or loss (d)	2, 3	23,000	23,000	–
Members' loans (b,c)	2	12,467,469	12,489,984	22,515
Other (a)	2	4,176	4,176	–
		13,635,174	13,657,704	22,530
Liabilities				
Members' deposits (b,c)	2	12,569,549	12,588,409	18,860
Trade payables and other liabilities (a,d)	2, 3	306,845	306,845	–
		$ 12,876,394	$ 12,895,254	$ 18,860

		2013		
		Book Value	Fair Value	Fair value difference
Financial Instrument Assets				
Cash and cash equivalents (a)	1	$ 142,310	$ 142,310	$ –
Interest bearing deposits with financial institutions	1	801,928	801,928	–
Assets at amortized cost	2	2,044	2,044	–
Assets at fair value through profit or loss (d)	2, 3	24,987	24,987	–
Members' loans (b,c)	2	11,743,165	11,786,666	43,501
Other (a)	2	5,463	5,463	–
		12,719,897	12,763,398	43,501
Liabilities				
Members' deposits (b,c)	2	11,870,882	11,882,051	11,169
Trade payables and other liabilities (a,d)	2, 3	171,594	171,594	–
		$ 12,042,476	$ 12,053,645	$ 11,169

The estimated fair value approximates amounts at which instruments could be exchanged in a current transaction between willing parties who are under no compulsion to act. However, many of the Credit Union's financial instruments 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 which 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. Because of the estimation process and the need to use judgment, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

The 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:

29. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

- Level 1 fair value measurements are those derived from quoted process (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); and
- 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).

The actuarial gains on defined benefit pension plans included in other comprehensive income is recorded in the Consolidated Statement of Comprehensive Income as net unrealized gains (losses) on available-for-sale financial assets. The unrealized gain (loss) on embedded purchase option is recorded in the Consolidated Statement of Comprehensive Income as other income.

Included in the above level 3 amount is an embedded purchase option of $17,987 (2013 – $17,391) in derivative financial instruments. The Credit Union has entered into an agreement with a third party in which it acts as an agent to sell credit cards. As part of this agreement the Credit Union has the option to acquire the underlying loans associated with the credit cards. This purchase option is considered an embedded derivative financial instrument, which is recorded at fair value.

Fair value can be calculated using various valuation techniques. The preferable method is an active quoted market price, but there is no active market for the above purchase option. Therefore, 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 percent.

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.

The level in the fair value hierarchy within which the financial assets or liabilities are categorized 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 into only one of three levels.

The following methods and assumptions were used to estimate the fair value of financial instruments:

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

(b) The estimated fair value of floating rate member loans and member deposits are assumed to equal book value as the interest rates automatically re-price to market.

(c) The estimated fair value of fixed rate member loans and fixed rate member deposits is 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 value of derivative financial instruments is calculated based on valuation techniques using inputs reflecting market conditions at a specific point in time and may not be reflective of future fair values.

(Canadian $ thousands, except per share amounts)

29. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

As at October 31, 2014	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative assets	$ –	$ **5,013**	$ –	$ **5,013**
Embedded derivative assets	–	–	**17,987**	**17,987**
Financial assets held at fair value	$ –	$ **5,013**	$ **17,987**	$ **23,000**
Member shares	–	**(489)**	–	**(489)**
Embedded derivative liabilities	–	**(4,932)**	–	**(4,932)**
Financial liabilities held at fair value	$ –	$ **(5,421)**	$ –	$ **(5,421)**

Fair value measurements using Level 3 inputs	
Balance at October 31, 2013	$ **17,402**
Gain (loss) included in profit and loss	**596**
Maturities of loans in the CMB pool	**(11)**
Balance at October 31, 2014	$ **17,987**

As at October 31, 2013	Level 1	Level 2	Level 3	Total
Derivative assets	$ –	$ 7,585	$ –	$ 7,585
Embedded derivative assets	–	–	17,391	17,391
Retained right to future excess spread	–	–	11	11
Financial assets held at fair value	$ –	$ 7,585	$ 17,402	$ 24,987
Member shares	–	(449)	–	(449)
Embedded derivative liabilities	–	(7,546)	–	(7,546)
Financial liabilities held at fair value	$ –	$ (7,995)	$ –	$ (7,995)

Fair value measurements using Level 3 inputs	
Balance at October 31, 2012	$ 15,926
Gain (loss) included in profit and loss	2,443
Maturities of loans in the CMB pool	(967)
Balance at October 31, 2013	$ 17,402

The fair value of derivative assets, liabilities and embedded derivatives liabilities were determined using a valuation technique based on observable market data (referred to as Level 2).

The fair value of the retained right to future excess spread and embedded derivative assets were derived from a valuation technique that included inputs that are not based on observable market data (referred to as Level 3).

The fair value of the liability portion of the investment shares was based on the par value of the shares, being the price at which the shares are regularly bought and sold (referred to as a Level 2).

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 the 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 portfolios. Qualitative and quantitative analysis 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 includes credit risk limits and exceptions;
- Credit risk documentation focuses on documentation and administration; and
- Credit review and deterioration includes monitoring and review.

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 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.

(Canadian $ thousands, except per share amounts)

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

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 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 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 the 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, 2013, there were no significant changes of 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.

		2014		2013
Before tax impact of:				
1% increase in rates	**$**	**365**	$	3,766
1% decrease in rates	**$**	**(20,781)**	$	(19,594)

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, 2014, the Credit Union's net difference between assets and liabilities in foreign currencies was $2,041 (2013 – $306).

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; and
- 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; and
- 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 2014, the Credit Union's liquidity as at October 31, 2014 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, including the cash flows from derivative financial, on at least a two-month rolling basis; and
- 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 meetings its obligations.

(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, 2014	Floating Rate	0–3 months	3-6 months	6-12 months	More Than 1 Year	Non Interest Sensitive	Total
Assets							
Cash	$ 101,954	$ –	$ –	$ –	$ –	$ 22,859	$ 124,813
Effective yield (%)	0.25%	–	–	–	–	–	0.20%
Investments in associates	–	–	–	–	–	164,103	164,103
Investments	–	969,430	–	42,703	1,250	2,333	1,015,716
Effective yield (%)	–	0.94%	–	0.75%	5.82%	–	0.93%
Member loans	4,756,025	584,360	510,649	1,088,176	5,524,936	3,323	12,467,469
Effective yield (%)	3.89%	4.21%	3.95%	3.97%	3.92%	–	3.93%
Other assets	–	–	–	–	–	271,805	271,805
	4,857,979	1,553,790	510,649	1,130,879	5,526,186	464,423	14,043,906
Liabilities and Equity							
Member deposits	4,512,583	1,215,278	1,340,625	1,726,427	2,373,750	1,400,886	12,569,549
Effective yield (%)	0.65%	1.61%	2.18%	1.92%	1.28%	–	1.13%
Other liabilities			–	–	–	182,887	182,887
Borrowings	50,000	50,443	434	912	46,739	168	148,696
Effective yield (%)	2.00%	1.70%	2.08%	2.08%	2.22%	–	1.97%
Equity	–	–	–	–	–	1,142,774	1,142,774
	4,562,583	1,265,721	1,341,059	1,727,339	2,420,489	2,726,715	14,043,906
Off Statements of Financial Position							
Notional value of assets derivative financial instruments	–	–	–	–	–	–	–
Notional value of liabilities derivative financial instruments	–	–	–	–	–	–	–
Sub Total	–	–	–	–	–	–	–
Net 2014 Position	$ 295,396	$ 288,069	$ (830,410)	$ (596,460)	$ 3,105,696	$ (2,262,292)	$ –

SERVUS CREDIT UNION LTD.
Notes to Consolidated Financial Statements
For the year ended October 31, 2014
(Canadian $ thousands, except per share amounts)

31. INTEREST RATE SENSITIVITY (CONTINUED)

As at October 31, 2013	Floating Rate	0-3 months	3-6 months	6-12 months	More Than 1 Year	Non Interest Sensitive	Total
Assets							
Cash	$ 118,224	$ –	$ –	$ –	$ –	$ 24,086	$ 142,310
Effective yield (%)	0.25%	–	–	–	–	–	0.20%
Investments in associates	–	–	–	–	–	152,679	152,679
Investments	–	779,436	21,769	–	1,250	1,517	803,972
Effective yield (%)	–	0.86%	1.18%	–	5.82%	–	0.88%
Member loans	4,606,372	629,049	371,535	896,846	5,236,242	3,121	11,743,165
Effective yield (%)	3.87%	4.25%	4.13%	4.18%	4.09%	–	4.02%
Other assets	–	–	–	–	–	274,324	274,324
	4,724,596	1,408,485	393,304	896,846	5,237,492	455,727	13,116,450
Liabilities and Equity							
Member deposits	4,795,418	1,560,650	671,752	1,861,871	1,918,272	1,062,919	11,870,882
Effective yield (%)	0.73%	1.75%	1.74%	1.92%	1.55%	–	1.18%
Other liabilities	–	–	–	–	–	165,743	165,743
Borrowings	–	–	–	17,630	–	–	17,630
Effective yield (%)	–	–	–	2.50%	–	–	2.50%
Equity	–	–	–	–	–	1,062,195	1,062,195
	4,795,418	1,560,650	671,752	1,879,501	1,918,272	2,290,857	13,116,450
Off Statements of Financial Position							
Notional value of assets derivative financial instruments	2,595	–	–	–	–	–	2,595
Notional value of liabilities derivative financial instruments	–	(2,595)	–	–	–	–	(2,595)
Sub Total	2,595	(2,595)	–	–	–	–	–
Net 2013 Position	$ (68,227)	$ (154,760)	$ (278,448)	$ (982,655)	$ 3,319,220	$ (1,835,130)	$ –

(Canadian $ thousands, except per share amounts)

32. RELATED PARTY DISCLOSURES

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

Subsidiaries

On December 31, 2013, Home Start Financial Ltd. was wound up into Servus Credit Union Ltd.

Alberta Central

The summary of outstanding balances in the consolidated statement of financial position and transactions in the consolidated statement of income and comprehensive income with Alberta Central are as follows:

Alberta Central		**As at October 31 2014**		As at October 31 2013
Cash	**$**	**101,892**	$	117,891
Term deposits		**1,012,134**		801,205
Accrued interest on term deposits		**1,523**		708
Term loans payable		**50,000**		–

		2014		2013
Interest income term deposits	**$**	**9,176**	$	8,479
Share of profits from associates		**10,280**		21,410
Interest expense on term loans		**2,015**		1,869
Data processing, memberships fees and other		**15,435**		15,295

Crelogix

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

Crelogix		**As at October 31 2014**		As at October 31 2013
Loans purchased	**$**	**13,323**	$	18,512

		2014		2013
Interest income	**$**	**1,976**	$	1,847
Share of profits from associates		**249**		128

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 Risk Officer (retired in December 2013), Chief Credit Officer, Chief People and Corporate Services Officer and Chief Brand & Corporate Social Responsibility Officer (returned in September 2014).

(Canadian $ thousands, except per share amounts)

32. RELATED PARTY DISCLOSURES (CONTINUED)

	Salary & Incentive	Benefits	Post employment benefits	2014
Chief Executive Officer (CEO)	**$ 943**	**$ 62**	**$ 204**	**$ 1,209**
Chief Financial Officer (CFO)	**322**	**30**	**24**	**376**
Chief Operating Officer (COO)	**351**	**30**	**24**	**405**
Chief Information Officer (CIO)	**344**	**29**	**24**	**397**
Chief Risk Officer (CRO)	**52**	**5**	**4**	**61**
Chief Credit Officer (CCO)	**197**	**18**	**20**	**235**
Chief People and Corporate Services Officer (CPO)	**315**	**32**	**24**	**371**
Chief Brand & Corporate Social Responsibility Officer (CBO)	**30**	**5**	**3**	**38**
Acting Chief Brand & Corporate Social Responsibility Officer (CBO)	**193**	**18**	**22**	**233**
	$ 2,747	**$ 229**	**$ 349**	**$ 3,325**

	Salary & Incentive	Benefits	Post employment benefits	2013
Chief Executive Officer (CEO)	$ 871	$ 70	$ 193	$ 1,134
Chief Financial Officer (CFO)	351	30	24	405
Chief Operating Officer (COO)	363	28	24	415
Chief Information Officer (CIO)	341	29	24	394
Chief Risk Officer (CRO)	351	29	24	404
Chief People and Corporate Services Officer (CPO)	331	32	24	387
Chief Brand & Corporate Social Responsibility Officer (CBO)	240	22	18	280
Acting Chief Brand & Corporate Social Responsibility Officer (CBO)	21	2	3	26
	$ 2,869	$ 242	$ 334	$ 3,445

Directors' compensation and expenses	**2014**	2013
Compensation to directors	**$ 705**	$ 654
Expenses incurred by directors	**94**	51
Total	**$ 799**	$ 705

Compensation to directors ranged from $20 (2013 – $19) to $67 (2013 – $65) with an average of $54 (2013 – $47).

Short-term employee benefits include employee benefits which are payable within twelve months after October 31 of each year and include salary, bonus, benefits and allowances. Post-employment benefits are employee benefits which are payable after the completion of employment and include compensation made to retirement and pension plans. Other long-term benefits are benefits which are payable more than twelve 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.

(Canadian $ thousands, except per share amounts)

32. RELATED PARTY DISCLOSURES (CONTINUED)

A number of transactions were entered into with key management personnel and other employees in the normal course of business:

Members' loans	As at October 31 2014	As at October 31 2013
Key management personnel	$ 1,224	$ 1,265
Board of directors	2,839	3,015
Other employees	349,979	348,643
Total	$ 354,042	$ 352,923

Members' deposits	As at October 31 2014	As at October 31 2013
Key management personnel	$ 6,559	$ 5,469
Board of directors	2,329	3,220
Other employees	147,452	158,995
Total	$ 156,340	$ 167,684

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. 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.

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