Servus Credit Union Ltd.
Consolidated Financial Statements

For the year ended October 31, 2015

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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.

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

Garth Warner,
President and Chief Executive Officer

Ian Glassford,
Chief Financial Officer

Deloitte.

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Independent Auditor's Report

To the Members of
Servus Credit Union Ltd.

We have audited the accompanying consolidated financial statements of Servus Credit Union Ltd., which comprise the consolidated statement of financial position as at October 31, 2015, 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, 2015, 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, 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
January 21, 2016

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

	Notes	**October 31 2015**	October 31 2014
Assets			
Cash and cash equivalents	5	**$ 188,389**	$ 124,813
Investments	6	**944,183**	1,015,716
Members' loans	7,9	**12,702,332**	12,467,469
Income taxes receivable		**–**	5,268
Assets held for sale	10	**6,390**	5,322
Other assets	11	**11,621**	9,671
Property and equipment	12	**170,612**	172,412
Investment property	13	**5,489**	7,360
Derivative financial assets	14	**24,711**	23,000
Investments in associates	15	**173,475**	164,103
Intangible assets	16	**48,019**	48,728
Deferred income tax assets	17	**84**	44
Total assets		**14,275,305**	14,043,906
Liabilities			
Borrowings	18	**610,431**	148,696
Members' deposits	19	**12,232,840**	12,569,549
Trade payables and other liabilities	20	**145,744**	156,189
Income taxes payable		**3,533**	–
Derivative financial liabilities	14	**2,778**	4,932
Investment shares	22	**489**	489
Defined benefit plans	21	**6,995**	6,741
Deferred income tax liabilities	17	**18,028**	14,536
Total liabilities		**13,020,838**	12,901,132
Equity			
Share capital	22	**609,477**	559,079
Retained earnings		**642,675**	581,776
Accumulated other comprehensive income		**1,313**	907
Total equity attributable to members of the Credit Union		**1,253,465**	1,141,762
Non-controlling interest		**1,002**	1,012
Total equity		**1,254,467**	1,142,774
Total liabilities and equity		**$ 14,275,305**	$ 14,043,906

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

Simon Neigum,
Chair, Audit and Finance Committee

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

	Notes		Year ended October 31 2015		Year ended October 31 2014
Interest income					
Members' loans		$	**478,718**	$	486,723
Investments	23		**5,939**		9,270
Total interest income			**484,657**		495,993
Interest expense					
Members' deposits			**120,080**		147,275
Other interest expense	24		**8,065**		2,420
Total interest expense			**128,145**		149,695
Net interest income			**356,512**		346,298
Other income	25		**87,619**		80,369
Share of profits from associates	15		**7,603**		10,529
Net interest income and other income			**451,734**		437,196
Provision for credit losses	8		**15,590**		12,532
Net interest income after provision for credit losses			**436,144**		424,664
Operating expenses					
Personnel			**184,211**		184,999
General			**53,226**		58,621
Occupancy			**20,322**		21,054
Member security			**22,116**		19,548
Depreciation	12,13		**14,408**		14,658
Organization			**5,113**		4,975
Impairment of intangible assets	16		**–**		37
Amortization	16		**7,249**		3,664
Total operating expenses			**306,645**		307,556
Income before patronage allocation to members and income taxes			**129,499**		117,108
Patronage allocation to members	22		**25,901**		28,259
Income before income taxes			**103,598**		88,849
Income taxes	17		**25,976**		20,336
Net income		$	**77,622**	$	68,513
Other comprehensive income			**406**		460
Total comprehensive income		$	**78,028**	$	68,973
Other Comprehensive income for the year, net of tax:					
Actuarial (losses)/gains on defined benefit pension plans (1) (net of income tax (recovery)/expense of$(63), 2014 - $133)	21		**(198)**		460
Share of other comprehensive income of associates					
Actuarial (losses) on defined benefit pension plans (1) (net of income tax (recovery) of $(104))			**(330)**		–
Unrealized gains and reclassification adjustments on available for sale securities (net of income tax expense of $294) (2)			**934**		–
Total other comprehensive (loss)/income		$	**406**	$	460
Total Comprehensive Income					
Comprehensive income attributable to members			**78,038**		68,975
Comprehensive loss attributable to non-controlling interest			**(10)**		(2)
Total comprehensive income		$	**78,028**	$	68,973

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

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

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

	Notes	Common shares	Investment shares	Retained earnings	Accumulated other compre -hensive income	Non-controlling interest	Total equity
Balance at October 31, 2013		$ 418,161	$ 110,848	$ 530,067	$ 447	$ 1,014	$ 1,060,537
Changes in equity							
Issues of share capital	22	27,273	–	–	–	–	27,273
Redemption of share capital	22	(16,130)	(2,746)	–	–	–	(18,876)
Dividends on share capital	22	16,262	5,411	–	–	–	21,673
Net income (loss)		–	–	68,513	–	(2)	68,511
Dividend (net of income tax recovery of $4,869)	22	–	–	(16,804)	–	–	(16,804)
Actuarial gains on defined benefit plans	21	–	–	–	460	–	460
Balance at October 31, 2014		**$ 445,566**	**$ 113,513**	**$ 581,776**	**$ 907**	**$ 1,012**	**$ 1,142,774**
Changes in equity							
Issues of share capital	22	**57,731**	**–**	**–**	**–**	**–**	**57,731**
Redemption of share capital	22	**(25,401)**	**(3,930)**	**–**	**–**	**–**	**(29,331)**
Dividends on share capital	22	**16,789**	**5,209**	**–**	**–**	**–**	**21,998**
Net income (loss)		**–**	**–**	**77,632**	**–**	**(10)**	**77,622**
Dividend (net of income tax recovery of $5,265)	22	**–**	**–**	**(16,733)**	**–**	**–**	**(16,733)**
Actuarial losses on defined benefit plans	21	**–**	**–**	**–**	**(198)**	**–**	**(198)**
Share of other comprehensive income of associates	15	**–**	**–**	**–**	**604**	**–**	**604**
Balance at October 31, 2015		**$ 494,685**	**$ 114,792**	**$ 642,675**	**$ 1,313**	**$ 1,002**	**$ 1,254,467**

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 2015		Year ended October 31 2014
Cash Flows (Used in) From Operating Activities				
Net income	$	**77,622**	$	68,513
Adjustments for non-cash items and others				
Net interest income		**(356,512)**		(346,298)
Provision for credit losses		**15,590**		12,532
Share of profits from investments in associates		**(7,603)**		(10,529)
Depreciation and amortization		**21,527**		18,322
Impairment of intangible assets		**–**		37
Gain on assets held for sale		**(1,489)**		(557)
Loss on sale of property and equipment		**331**		371
Income taxes		**25,976**		20,336
Adjustments for net changes in operating assets and liabilities				
Change in members' loans		**(254,718)**		(734,785)
Change in members' deposits		**(312,336)**		692,532
Change in assets held for sale		**(4,144)**		4,279
Change in derivatives		**(3,865)**		(639)
Net change in other assets, provisions, and trade payables and other liabilities		**(12,377)**		21,747
Income taxes received and paid, net		**(13,683)**		(26,056)
Interest received		**488,504**		493,127
Interest paid		**(152,686)**		(143,392)
Net Cash (Used in) From Operating Activities		**(489,863)**		69,540
Cash Flows From (Used in) From Investing Activities				
Additions to intangible assets		**(6,577)**		(12,436)
Additions to property and equipment, and investment property		**(11,370)**		(7,869)
Proceeds on disposal of property and equipment, and investment property		**155**		123
Proceeds on disposal of assets held for sale		**4,877**		805
Purchase of Alberta Central shares		**(9,275)**		(9,306)
Distributions from Alberta Central		**8,110**		8,411
Investments		**71,951**		(210,929)
Net Cash From (Used in) Investing Activities		**57,871**		(231,201)
Cash Flows From (Used in) Financing Activities				
Advances of term loans and lines of credit		**1,323,391**		575,000
Repayment of term loans and lines of credit		**(1,423,391)**		(475,000)
Advances of secured borrowing		**611,003**		49,224
Repayment of secured borrowing		**(49,100)**		(18,326)
Tax recovery on dividend paid		**5,265**		4,869
Shares issued		**57,731**		27,273
Shares redeemed		**(29,331)**		(18,876)
Net Cash From Financing Activities		**495,568**		144,164
Increase (Decrease) in Cash and Cash Equivalents		**63,576**		(17,497)
Cash and cash equivalents, beginning of year		**124,813**		142,310
Cash and Cash Equivalents, End of Year	$	**188,389**	$	124,813

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

1. REPORTING ENTITY

Servus Credit Union Ltd. ("Servus" or the "Credit Union") is incorporated in Canada under the Credit Union Act of the Province of Alberta. The address of the Credit Union's registered office is 151 Karl Clark Road, Edmonton, Alberta. The Credit Union operates in the loans and deposit taking industry regulated under the Credit Union Act. 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 use the accounting policies the Credit Union adopted for its financial statements for the year ended October 31, 2015. 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, 2015 were authorized for issue by the Board of Directors on January 21, 2016.

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 standards and are reviewed on a continuous 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 Structured Entities, and accounting for investments in associates.

3. SIGNIFICANT ACCOUNTING POLICIES

Adoption of Standards in the Current Year

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.

As a result of the amendment to IAS 32 the Credit Union is required to present offsetting financial assets and liabilities on a net basis. IAS 32 has been adopted retrospectively and has had no impact on the Credit Union's financials statements.

IFRIC 21 Levies

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.

IFRIC 21 has been adopted retrospectively and has had no impact on the Credit Union financial statements.

Basis of Consolidation

The financial statements of the Credit Union include the assets, liabilities, income and expenses of subsidiaries, and Structured Entities 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.

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

Subsidiaries

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

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

- Servus Wealth Strategies Ltd., which provides wealth management services;
- 1358938 Alberta Ltd., which provides the Credit Union with air transportation services.

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

- 1626210 Alberta Ltd., which owns rental properties in Slave Lake.

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

On April 30, 2015, All Source Mortgages was wound up into Servus Credit Union Ltd.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, however the Credit Union is limited, by the bylaws, to only 5 positions out of a possible 12 appointed board members. The remaining shares are owned by various credit unions within Alberta.

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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. 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, 2015.

Available-for-Sale Financial Assets

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

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

The Credit Union holds other investments in companies that are part of the credit union system which are not traded on an active market. 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 operating expenses 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. If the Credit Union has neither transferred nor retained substantially all the risks and rewards of the transferred financial asset, the Credit Union will assess whether it has retained control over the transferred asset. If the Credit Union determines that control has not been retained, the Credit Union will derecognize the transferred asset.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The Credit Union 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 as an operating expense. 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 other income or operating expenses.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Assets Held for Sale

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

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

If the Credit Union has classified an asset as held for sale, but the recognition criteria are no longer met, then the Credit Union ceases to classify the asset as held for sale. The Credit Union measures an asset that ceases to be classified as held for sale at the lower of either: (i) the carrying amount before the asset was classified as held for sale, adjusted for any depreciation that would have been recognized had the asset not been classified as held for sale, 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 recognized in other income in the period in which the recognition criteria are no longer met.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures 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 as general operating expenses as incurred.

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

Depreciation is recognized within operating expenses on a straight-line basis over the estimated useful 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The estimated useful lives are as follows:

Buildings	20 to 40 years
Furniture, office equipment and vehicles	5 to 20 years
Airplane	10 years
Leasehold improvements	Lesser of useful life or lease term
Computer equipment	5 years
Equipment under finance leases	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.

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 within general operating expenses in the year of the disposal.

Depreciation is recognized within operating expenses on a straight-line basis over the estimated useful 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 expenditures that are directly attributable to the acquisition of the asset and borrowing costs. The cost of internally generated assets includes the cost of materials and direct labour, and any other costs directly attributable to bringing the asset to a working condition for its intended use.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Computer software and development costs	5-15 years

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

Impairment of Non-Financial Assets

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

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of its fair value less costs to sell, and value in use. Fair value is estimated based on recent transactions for similar assets within the same industry. Value in use is estimated based on discounted net cash flows from continuing use and 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 as occupancy expense on a straight-line basis over the term of the lease. Lease incentives received are recognized on a straight-line basis over the term of the lease.

The Credit Union as a Lessor

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 other income on a straight line-basis over the term of the lease. Lease incentives provided are recognized on a straight-line basis over the term of the lease.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, incentive pay programs, vacation, medical benefits, allowances, paid absences, and other benefits including any related payroll taxes are accounted for on an accrual basis over the period in which 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 health care costs, and other actuarial factors. The present value of the obligation is determined by discounting the estimated future cash outflows. The discount rate is the yield at the reporting date on high quality fixed income investments that have maturity dates approximating the terms of the Credit Union's obligations.

Past service costs are recognized immediately within personnel expense, unless the changes to the plan are conditional on employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight line basis over the vesting period.

The Credit Union recognizes all actuarial gains and losses arising from defined benefit plans immediately in other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Members' Shares

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

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

Interest Income and Expense

Interest income and expense earned and charged on Members' loans, deposits and investments is recognized within interest income and interest expense using the effective interest method. The effective interest method calculates the amortized cost of a financial asset or 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 amortized over the life of the loan and included in net interest income. Typically commissions and fees that are not an integral part of the effective interest rate, including insurance commissions and mortgage prepayment penalties are recognized as income when charged to 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.

Patronage Allocation to Members

Patronage allocations to Members are recognized in the consolidated statement of income and comprehensive 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 the consolidated statement of income and comprehensive income except to the extent that they relate to items that are recognized in other comprehensive income or directly in equity. Tax impacts that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend 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.

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.

(Canadian $ thousands, except per share amounts)

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, 2018**
  - **IFRS 15 Revenue from Contracts with Customers**

    In May 2014, the IASB Issued IFRS 15 which establishes principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard provides a single, principles-based five-step model for revenue recognition to be applied to all contracts with customers.
  - **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 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 IAS 39.

    IFRS 9 also introduces an expected loss impairment model for all financial assets not measured 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.

5. CASH AND CASH EQUIVALENTS

		As at October 31 2015		As at October 31 2014
Cash on hand	**$**	**13,312**	$	13,485
ATM		**10,224**		10,566
Foreign exchange cash		**625**		284
Cash with Alberta Central		**165,172**		101,892
Cheques and items in transit		**(944)**		(1,414)
Total	**$**	**188,389**	$	124,813

6. INVESTMENTS

		As at October 31 2015		As at October 31 2014
Term deposits with Alberta Central	**$**	**940,183**	$	1,012,134
Debentures		**1,250**		1,250
Other		**794**		794
		942,227		1,014,178
Accrued interest		**1,956**		1,538
Total	**$**	**944,183**	$	1,015,716

(Canadian $ thousands, except per share amounts)

7. MEMBERS' LOANS

	Gross Amount	Specific allowance	Collective allowance	Net Amount	Impaired Loans
As at October 31, 2015					
Residential mortgages	**$ 7,325,389**	**$ 344**	**$ 935**	**$ 7,324,110**	**$ 523**
Commercial mortgages and loans	**3,973,739**	**15,926**	**5,576**	**3,952,237**	**26,137**
Consumer loans	**1,055,234**	**2,544**	**5,346**	**1,047,344**	**4,924**
Agricultural mortgages and loans	**342,073**	**135**	**2**	**341,936**	**626**
	12,696,435	**18,949**	**11,859**	**12,665,627**	**32,210**
Accrued interest	**38,988**	**1,601**	**682**	**36,705**	**–**
Total	**$ 12,735,423**	**$ 20,550**	**$ 12,541**	**$ 12,702,332**	**$ 32,210**

	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

8. ALLOWANCE FOR CREDIT LOSSES

Specific Allowance

	Residential	Commercial	Consumer	Agricultural	Interest	Total
As at October 31, 2014	**$ 804**	**$ 27,210**	**$ 2,244**	**$ 85**	**$ 1,954**	**$ 32,297**
Recoveries of previous loan write offs	**12**	**3,573**	**1,235**	**–**	**–**	**4,820**
Allowance charged to net income	**1,050**	**4,656**	**4,814**	**52**	**298**	**10,870**
	1,866	**35,439**	**8,293**	**137**	**2,252**	**47,987**
Loans written off	**1,522**	**19,513**	**5,749**	**2**	**651**	**27,437**
As at October 31, 2015	**$ 344**	**$ 15,926**	**$ 2,544**	**$ 135**	**$ 1,601**	**$ 20,550**

	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

(Canadian $ thousands, except per share amounts)

8. ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

Collective Allowance

	Residential	Commercial	Consumer	Agricultural	Interest	Total
As at October 31, 2014	$ 931	$ 2,282	$ 4,089	$ 2	$ 517	$ 7,821
Allowance charged to net income	4	3,294	1,257	–	165	4,720
As at October 31, 2015	**$ 935**	**$ 5,576**	**$ 5,346**	**$ 2**	**$ 682**	**$ 12,541**

	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

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.

As at October 31, 2015	Residential	Commercial	Consumer	Agricultural	Total
Risk Categories					
1 to 5 – Satisfactory risk	**$ –**	**$ 3,920,580**	**$ –**	**$ 340,399**	**$ 4,260,979**
6 – Watch list	**–**	**18,303**	**–**	**160**	**18,463**
8 – Impaired risk – performing	**–**	**1,400**	**–**	**237**	**1,637**
7 and 9 – Unacceptable/impaired risk – non-performing	**–**	**7,319**	**–**	**651**	**7,970**
Loans without risk rating	**7,324,866**	**–**	**1,050,310**	**–**	**8,375,176**
Loans not impaired	**7,324,866**	**3,947,602**	**1,050,310**	**341,447**	**12,664,225**
Loans specifically impaired	**523**	**26,137**	**4,924**	**626**	**32,210**
Sub Total	**7,325,389**	**3,973,739**	**1,055,234**	**342,073**	**12,696,435**
Accrued interest	**11,269**	**12,705**	**11,077**	**3,937**	**38,988**
Total	**$ 7,336,658**	**$ 3,986,444**	**$ 1,066,311**	**$ 346,010**	**$ 12,735,423**

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
Loans without risk rating	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

(Canadian $ thousands, except per share amounts)

9. CREDIT QUALITY OF MEMBERS' LOANS (CONTINUED)

- 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.

Loans past due, as at October 31, 2015

	Residential	Commercial	Consumer	Agricultural	Total
Past due up to 29 days	**$ 124,570**	**$ 17,131**	**$ 20,950**	**$ 4,017**	**$ 166,668**
Past due 30 - 59 days	**37,166**	**24,974**	**6,947**	**2,480**	**71,567**
Past due 60 - 89 days	**13,063**	**3,341**	**2,476**	**11**	**18,891**
Past due over 90 days	**13,436**	**33,674**	**4,608**	**1,360**	**53,078**
Total	**$ 188,235**	**$ 79,120**	**$ 34,981**	**$ 7,868**	**$ 310,204**

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 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.

(Canadian $ thousands, except per share amounts)

9. CREDIT QUALITY OF MEMBERS' LOANS (CONTINUED)

Loans past due but not impaired as at October 31, 2015

	Residential	Commercial	Consumer	Agricultural	Total
Past due up to 29 days	**$ 124,570**	**$ 17,131**	**$ 20,649**	**$ 4,017**	**$ 166,367**
Past due 30 - 59 days	**37,166**	**24,973**	**6,655**	**2,480**	**71,274**
Past due 60 - 89 days	**13,064**	**3,286**	**1,951**	**11**	**18,312**
Past due over 90 days	**12,912**	**7,593**	**802**	**734**	**22,041**
Total	**$ 187,712**	**$ 52,983**	**$ 30,057**	**$ 7,242**	**$ 277,994**

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

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.

	As at October 31 2015	As at October 31 2014
Loans by security:		
Insured loans and mortgages	**$ 2,588,166**	$ 2,470,037
Secured by mortgage	**7,295,724**	6,831,090
Secured by other	**2,190,710**	2,509,177
Unsecured	**660,823**	697,283
Total	**$ 12,735,423**	$ 12,507,587

10. ASSETS HELD FOR SALE

	As at October 31 2015	As at October 31 2014
Foreclosed property	**$ 5,982**	$ 2,055
Other land and buildings	**408**	3,267
Total	**$ 6,390**	$ 5,322

(Canadian $ thousands, except per share amounts)

11. OTHER ASSETS

	As at October 31 2015	As at October 31 2014
Accounts receivable	$ **4,295**	$ 4,176
Prepaid items	**7,326**	5,495
Total	$ **11,621**	$ 9,671

12. PROPERTY AND EQUIPMENT

	Land	Buildings	Leasehold improve-ment	Furniture, office equipment and vehicles	Computer equipment	Airplane	Total
Cost							
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
Additions	–	2,073	4,174	2,364	2,759	–	11,370
Disposals	–	(144)	(390)	(4,179)	(8,010)	–	(12,723)
Transfer to/(from) assets held for sale	–	–	–	–	–	(975)	(975)
Transfer to/(from) investment property	109	1,920	–	–	–	–	2,029
Other transfers	56	–	29	1	38	–	124
Balance as at October 31, 2015	**$ 25,971**	**$ 155,157**	**$ 45,459**	**$ 32,101**	**$ 20,267**	**$ –**	**$ 278,955**
Accumulated depreciation							
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
Depreciation	–	5,259	2,771	3,110	2,705	121	13,966
Disposals	–	(44)	(385)	(4,044)	(7,764)	–	(12,237)
Transfer to/(from) assets held for sale	–	–	–	–	–	(704)	(704)
Transfer to/(from) investment property	–	600	–	–	–	–	600
Balance as at October 31, 2015	**$ –**	**$ 51,545**	**$ 25,681**	**$ 21,298**	**$ 9,819**	**$ –**	**$ 108,343**
Net Book Value							
At October 31, 2014	25,806	105,578	18,351	11,683	10,602	392	172,412
At October 31, 2015	**25,971**	**103,612**	**19,778**	**10,803**	**10,448**	**–**	**170,612**

(Canadian $ thousands, except per share amounts)

13. INVESTMENT PROPERTY

		Land		Buildings		Total
Cost						
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
Transfer to/(from) property and equipment		(109)		(1,920)		(2,029)
Balance as at October 31, 2015	**$**	**1,313**	**$**	**8,894**	**$**	**10,207**
Accumulated depreciation						
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
Depreciation		–		442		442
Transfer to/(from) property and equipment		–		(600)		(600)
Balance as at October 31, 2015	**$**	**–**	**$**	**4,718**	**$**	**4,718**
Net Book Value						
At October 31, 2014		1,422		5,938		7,360
At October 31, 2015		**1,313**		**4,176**		**5,489**

The fair value of investment property held at October 31, 2015 was $14,457 (October 31, 2014 $18,570). 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 2015**		October 31 2014
Rental income	$	**1,444**	$	1,410
Direct operating expense from property generating rental income		**478**		485
Total	$	**966**	$	925

Future rental payments receivable are as follows:

		October 31 2015		October 31 2014
Less than 1 year	$	**1,349**	$	1,267
Between 1 and 5 years		**2,885**		1,819
More than 5 years		**217**		134
Total	$	**4,451**	$	3,220

(Canadian $ thousands, except per share amounts)

14. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

As at October 31, 2015	Equity-linked options	Embedded purchase option	Interest rate swaps	Total
Financial Derivative Assets				
Gross amounts of financial assets before statement of financial position offsetting	$ –	$ –	$ 3,955	$ 3,955
Gross amounts of financial liabilities before statement of financial position offsetting	–	–	(3,066)	(3,066)
Net amount of financial assets presented on the statement of financial position	–	–	889	889
Amounts not subject to enforceable netting arrangements	2,790	21,032	–	23,822
Total	$ 2,790	$ 21,032	$ 889	$ 24,711
Financial Derivative Liabilities				
Amounts not subject to enforceable netting arrangements	$ 2,778	$ –	$ –	$ 2,778
Total	$ 2,778	$ –	$ –	$ 2,778

As at October 31, 2014	Equity-linked options	Embedded purchase option	Interest rate swaps	Total
Financial Derivative Assets				
Amounts not subject to enforceable netting arrangements	$ 5,013	$ 17,987	$ –	$ 23,000
Total	$ 5,013	$ 17,987	$ –	$ 23,000
Financial Derivative Liabilities				
Amounts not subject to enforceable netting arrangements	$ 4,932	$ –	$ –	$ 4,932
Total	$ 4,932	$ –	$ –	$ 4,932

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 2015	As at October 31 2014
Interest rate swaps receive floating, pay fixed	$ –	$ –	$ 200,000	$ 200,000	$ –
Equity-linked options	–	21,446	42,911	64,357	73,652
Total	$ –	$ 21,446	$ 242,911	$ 264,357	$ 73,652

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.

(Canadian $ thousands, except per share amounts)

14. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Embedded Purchase Option

The Credit Union entered into an arrangement with a third party, where the third party acts as an agent to offer credit cards to its members. The agreement automatically renews annually unless either party provides notice to terminate. The agreement contains an option for the Credit Union to acquire the underlying consumer loans associated with the credit cards. The exercise price is linked to the book value of the loans and notice of intent to exercise the option must be provided one year prior to the termination of the agreement. The current agreement is due to renew in September 2016.

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.

15. INVESTMENTS IN ASSOCIATES

		As at October 31 2015		As at October 31 2014
Alberta Central				
Opening Balance	**$**	**163,132**	$	151,957
Purchase of additional shares		**9,275**		9,306
Share of profits		**7,853**		10,280
Share of other comprehensive income (net of tax)		**604**		–
Distributions		**(8,030)**		(8,411)
Total	**$**	**172,834**	$	163,132
Crelogix				
Opening Balance	**$**	**971**	$	722
Share of (loss) profits		**(250)**		249
Distributions		**(80)**		–
Total	**$**	**641**	$	971
Total Investment in Associates	**$**	**173,475**	$	164,103

Name of associate	Principal activity	Place of incorporation and principal place of business	Proportion of ownership interest held by the Credit Union 2015	2014
Alberta Central	Financial services	Alberta	**59.2%**	58.6%
Crelogix	Financial services	Alberta	**32.1%**	32.1%

(Canadian $ thousands, except per share amounts)

15. INVESTMENTS IN ASSOCIATES (CONTINUED)

Financial Information for Associates		As at October 31 2015		As at October 31 2014
Alberta Central				
Assets	$	**2,759,960**	$	2,605,066
Liabilities		**2,458,976**		2,316,603
Revenues		**33,943**		32,345
Income before distributions		**11,883**		17,179
Other comprehensive income		**1,353**		–
Crelogix				
Assets	$	**19,188**	$	18,282
Liabilities		**19,616**		17,507
Revenues		**13,158**		12,203
Net (loss) income		**(884)**		591

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

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

Alberta Central		As at October 31 2015		As at October 31 2014
Cash	$	**165,172**	$	101,892
Term deposits		**940,183**		1,012,134
Accrued interest on term deposits		**1,941**		1,523
Term loans payable		**–**		50,000

		2015		2014
Interest income term deposits	$	**8,416**	$	9,176
Share of profit		**7,853**		10,280
Interest expense on term loans		**2,538**		2,015
Data processing, memberships fees and other		**15,133**		15,435
Share of other comprehensive income (net of tax)		**604**		–

Crelogix		As at October 31 2015		As at October 31 2014
Loans purchased	$	**4,031**	$	13,323

		2015		2014
Interest income	$	**1,635**	$	1,976
Share of (loss) profit from associates		**(250)**		249

(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, 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
Additions	1,338	124	5,115	6,577
Disposals	(1,690)	(2,715)	–	(4,405)
Transfers	23	23,163	(23,223)	(37)
Balance as at October 31, 2015	**$ 2,461**	**$ 61,169**	**$ 5,756**	**$ 69,386**
Accumulated amortization				
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
Amortization	500	6,749	–	7,249
Disposals	(1,690)	(2,715)	–	(4,405)
Balance as at October 31, 2015	**$ 689**	**$ 20,678**	**$ –**	**$ 21,367**
Net Book Value				
At October 31, 2014	911	23,953	23,864	48,728
At October 31, 2015	**1,772**	**40,491**	**5,756**	**48,019**

17. INCOME TAXES

(a) Income tax expense

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

Income Tax Expense	**2015**	2014
Current tax expense		
Based on current year taxable income	**$ 22,651**	$ 17,618
Adjustments for (over) provision in prior periods	**–**	(300)
Total	**22,651**	17,318
Deferred tax expense		
Origination and reversal of temporary differences	**2,148**	2,687
Increase in tax rate	**1,177**	331
	3,325	3,018
Total	**$ 25,976**	$ 20,336

(Canadian $ thousands, except per share amounts)

17. INCOME TAXES (CONTINUED)

(b) Reconciliation of effective tax rate:

	2015		2014	
Income before income taxes	$ **103,598**		$ 88,849	
Income tax expense based on statutory rate	**24,791**	**23.93%**	19,964	22.47%
Effect on non-deductible expenses	**170**	**0.16%**	191	0.21%
Future tax rate change	**1,177**	**1.14%**	331	0.37%
Other	**(162)**	**(0.16%)**	(150)	(0.17%)
Total income tax expense	$ **25,976**	**25.07%**	$ 20,336	22.88%

(c) Deferred tax assets and liabilities
The movement in deferred tax assets and liabilities are:

Deferred Tax Assets and Liabilities	**As at October 31 2014**	**Recognized in net income**	**Recognized in OCI**	**As at October 31 2015**
Subsidiary deferred tax asset:				
Subsidiary Property and equipment	$ **(47)**	$ **18**	$ **–**	$ **(29)**
Subsidiary Non-capital losses	**91**	**22**	**–**	**113**
Total	**44**	**40**	**–**	**84**
Servus deferred tax liability:				
Member loans	**936**	**2,911**	**–**	**3,847**
Property and equipment	**(6,534)**	**(5,644)**	**–**	**(12,178)**
Derivative instruments	**(4,479)**	**(1,178)**	**–**	**(5,657)**
Investment in associate	**(8,013)**	**(382)**	**(190)**	**(8,585)**
Employee benefits	**1,596**	**592**	**63**	**2,251**
Other payables	**1,859**	**251**	**–**	**2,110**
Non-capital losses	**99**	**85**	**–**	**184**
Total	**(14,536)**	**(3,365)**	**(127)**	**(18,028)**
Net Consolidated Deferred tax	$ **(14,492)**	$ **(3,325)**	$ **(127)**	$ **(17,944)**

	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)	–	(8,013)
Employee benefits	1,879	(150)	(133)	1,596
Other payables	1,577	282	–	1,859
Non-capital losses	56	43	–	99
Total	(11,359)	(3,043)	(133)	(14,536)
Net Consolidated Deferred tax	$ (11,340)	$ (3,018)	$ (133)	$ (14,492)

(Canadian $ thousands, except per share amounts)

18. BORROWINGS

	Maturity Date	Interest rate	As at October 31 2015	As at October 31 2014
Term Loans and lines of credit				
Alberta Central	Not Applicable	Not Applicable	$ –	$ 50,000
Caisse Centrale Desjardins	Not Applicable	Not Applicable	–	50,000
Accrued interest on borrowings			–	168
Securitization	Dec 1, 2016 to Aug 1, 2020	0.6240% to 1.9100%	**610,431**	48,528
Total			$ **610,431**	$ 148,696

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.

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.

(Canadian $ thousands, except per share amounts)

18. BORROWINGS (CONTINUED)

The Credit Union has determined that an amount of $611,003 (2014 – $49,224) 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, 2015, of the associated residential mortgages held as security is $611,917 (2014 – $48,941). 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 2015		As at October 31 2014
Demand accounts	$	**6,891,620**	$	6,302,764
Term deposits		**3,609,170**		4,254,029
Registered plans		**1,685,514**		1,942,273
Other deposits		**10,734**		10,308
		12,197,038		12,509,374
Accrued interest		**35,802**		60,175
Total	$	**12,232,840**	$	12,569,549

20. TRADE PAYABLES AND OTHER LIABILITIES

		As at October 31 2015		As at October 31 2014
Cheques and other items in transit	$	**34,685**	$	51,267
Accounts payable		**81,469**		72,480
Dividend and patronage to members		**25,934**		28,332
Deferred income		**3,523**		3,600
Provisions		**133**		510
Total	$	**145,744**	$	156,189

21. EMPLOYEE BENEFITS

		2015		2014
Short-term employee benefits	$	**174,138**	$	174,268
Post-employment benefits		**8,538**		8,502
Termination benefits		**454**		131
Total	$	**183,130**	$	182,901

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.

(Canadian $ thousands, except per share amounts)

21. EMPLOYEE BENEFITS (CONTINUED)

Plan Cost	Pension Plans	Other Benefit Plans	2015	2014
Net benefit plan cost in net income				
Current service cost	$ 159	$ –	$ 159	$ 189
Interest cost	160	47	207	253
Total	319	47	366	442
Defined contribution registered retirement savings plan – Credit Union contributions	8,617	–	8,617	8,499
Total	8,936	47	8,983	8,941
Actuarial (gain) recognized in other comprehensive income	534	(716)	(182)	(447)
Total	$ 9,470	$ (669)	$ 8,801	$ 8,494

Accrued benefit obligation and liability	Pension Plans	Other Benefit Plans	As at October 31 2015	As at October 31 2014
Unfunded accrued benefit obligation				
Balance, beginning of year	$ 4,531	$ 2,210	$ 6,741	$ 7,283
Current service cost	159	–	159	189
Interest cost	160	47	207	253
Benefits paid	(247)	(126)	(373)	(391)
Actuarial loss (gain)	415	(154)	261	(593)
Balance, end of year	$ 5,018	$ 1,977	$ 6,995	$ 6,741

	Pension Plans	Other Benefit Plans	2015	2014
Included in personnel expense				
Current service cost	$ 159	$ –	$ 159	$ 189
Interest cost	160	47	207	253
Benefits paid	(247)	(126)	(373)	(391)
Total	$ 72	$ (79)	$ (7)	$ 51

	Pension Plans		Other Benefit Plans	
	2015	2014	2015	2014
Discount rate	3.0% to 3.8%	3.5% to 7.0%	3.50%	2.20%
Rate of compensation increase	3.45%	3.45%	3.45%	3.45%

(Canadian $ thousands, except per share amounts)

21. EMPLOYEE BENEFITS (CONTINUED)

Changes in the assumed health care cost trend rates for the post-retirement benefit plans for the period endedOctober 31, 2015 are:

Effect on:	1% increase	1% decrease
Accrued benefit obligation and liability	$ 18	$ 197

Experience adjustments	**2015**	2014
Accrued benefit obligation and plan deficit	**$ 6,995**	$ 6,741
Actuarial loss (gain)	**261**	(593)
Defined benefit contributions expected to be paid in 2016		$ 373

22. 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)

22. SHARE CAPTIAL (CONTINUED)

	Issued and outstanding as at October 31 2014	Issued	Redeemed and transferred	Dividends declared	Issued and outstanding as at October 31 2015
Common shares total	$ 445,566	$ 57,731	$ (25,401)	$ 16,789	$ 494,685
Investment shares					
Series A	50,261	–	(1,554)	2,306	51,013
Series B	7,295	–	(77)	341	7,559
Series C	20,478	–	(974)	923	20,427
Series D	30,284	–	(1,028)	1,384	30,640
Series E	4,201	–	(247)	210	4,164
Series F	615	–	(47)	27	595
Series G	379	–	(3)	18	394
Investment shares total	$ 113,513	$ –	$ (3,930)	$ 5,209	$ 114,792
Share capital total	$ 559,079	$ 57,731	$ (29,331)	$ 21,998	$ 609,477

	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

(Canadian $ thousands, except per share amounts)

22. SHARE CAPTIAL (CONTINUED)

2015	Common Shares Equity Portion	Investment Shares Equity Portion	Total Equity	Investment Shares Liability Portion
As at October 31, 2014	$ 445,566	$ 113,513	$ 559,079	$ 489
Issued	57,731	–	57,731	–
Redeemed	(25,401)	(3,930)	(29,331)	–
Share dividend declared	16,789	5,209	21,998	–
As at October 31, 2015	$ 494,685	$ 114,792	$ 609,477	$ 489

2014				
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 dividends declared	16,262	5,411	21,673	–
As at October 31, 2014	$ 445,566	$ 113,513	$ 559,079	$ 489

Total patronage and dividends paid in cash or shares	2015	2014
Patronage to members in cash	$ 25,901	$ 28,259
Common share dividend	16,789	16,262
Investment share dividend	5,209	5,411
	$ 47,899	$ 49,932

Common share dividends are paid to Members by the issuance of additional common shares and are allocated to Members' accounts as determined by the Board of Directors. Series A, B, C, D, E, F and G investment share dividends are paid in additional Series A, B, C, D, E, F and G investment shares, respectively.

Dividend rate (%)	2015	2014
Common share	3.75%	4.00%
Investment share	4.75%	5.00%

23. INVESTMENT INCOME

	2015	2014
Investment income on loans and receivables other than members' loans	$ 8,611	$ 9,264
Unrealized gain on derivative instruments	944	6
Realized loss on derivative instruments	(3,616)	–
Total	$ 5,939	$ 9,270

(Canadian $ thousands, except per share amounts)

24. OTHER INTEREST EXPENSE

		2015		2014
Term loans	$	**1,580**	$	748
Line of credit		**958**		1,390
Secured borrowing		**5,527**		282
Total	$	**8,065**	$	2,420

25. OTHER INCOME

		2015		2014
Commissions and fees	$	**50,304**	$	45,611
Account service charges		**27,556**		26,633
Foreign exchange income		**3,547**		4,335
Operating lease income		**1,488**		1,454
Other		**4,724**		2,336
Total	$	**87,619**	$	80,369

26. 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 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.

(Canadian $ thousands, except per share amounts)

26. CAPITAL MANAGEMENT (CONTINUED)

Regulatory Capital

Capital requirements are established by the Act and regulated by the Corporation using a risk weighted and total asset approach. Total capital consists of both primary and secondary capital. For the year ended October 31, 2015, the Credit Union is required by regulation to hold capital equal to or exceeding the greater of 4.0 percent of total assets and 11.5 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.

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, 2015 and 2014, the Credit Union's capital ratio was greater than the minimum requirement. The following components of regulatory capital were reported:

	As at October 2015	As At October 2014
Primary Capital:		
Adjusted retained earnings[1]	**$ 588,424**	$ 531,489
Common shares	**494,685**	445,566
Investment shares	**115,281**	114,002
Total primary capital	**1,198,390**	1,091,057
Secondary Capital:		
Collective allowance for credit losses	**12,541**	7,821
Deferred income tax liabilities	**18,028**	14,536
Total secondary capital	**30,569**	22,357
Less Deductions:		
Intangible assets	**(48,019)**	(48,728)
Deferred income tax asset	**(84)**	(44)
Total Capital Available	**$ 1,180,856**	$ 1,064,642
Total capital as % of risk weighted assets	**14.55%**	13.24%
Total capital as % of assets	**8.27%**	7.58%

1) Retained earnings less fair value of derivative assets

(Canadian $ thousands, except per share amounts)

27. GUARANTEES, COMMITMENTS AND CONTINGENT LIABILITIES

Guarantees

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

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

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

(iii) Another entity's failure to perform under an obligation agreement; 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 statements but are presented in the tables below.

Standby Letters of Credit and Letters of Guarantee

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

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

Standby letters of credit, letters of guarantee, and MasterCard gaurantees outstanding were:

	As at October 31 2015	As at October 31 2014
Standby letters of credit	**$ 71,285**	$ 80,824
MasterCard guarantees	**1,482**	1,300
Total	**$ 72,767**	$ 82,124

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.

(Canadian $ thousands, except per share amounts)

27. GUARANTEES, COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

The financial commitments are subject to the Credit Union's normal credit standards, financial controls and monitoring procedures. The following table provides a detailed breakdown of the Credit Union's other indirect commitments expressed in terms of the contractual amounts of the related commitment or contract which are not reflected on the consolidated statement of financial position.

Commitments to extend credit		**As at October 31 2015**		As at October 31 2014
Original term to maturity of one year or less	**$**	**2,651,617**	$	2,795,199
Original term to maturity of more than one year		**83,118**		101,805
Total	**$**	**2,734,735**	$	2,897,004

Property and equipment and intangible assets expenditure commitments		**As at October 31 2015**		As at October 31 2014
Total contractual amount	**$**	**2,706**	$	10,376
Cost to date		**1,053**		6,094
Remaining commitment	**$**	**1,653**	$	4,282

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	**$**	**9,962**	**$**	**6,899**	**$**	**16,861**
Between 1 and 5 years		**33,898**		**4,241**		**38,139**
After 5 years		**11,015**		**–**		**11,015**
Total	**$**	**54,875**	**$**	**11,140**	**$**	**66,015**

(Canadian $ thousands, except per share amounts)

28. 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.

		2015		
	Note	Carrying Value	Fair Value	Fair value difference
Financial Instrument Assets				
Cash and cash equivalents	a	$ 188,389	$ 188,389	$ –
Interest bearing deposits with financial institutions		942,139	942,208	69
Assets at amortized cost		2,044	2,044	–
Assets at fair value through profit or loss	d	24,711	24,711	–
Members' loans	b,c	12,702,332	12,758,450	56,118
Other	a	4,295	4,295	–
		13,863,910	13,920,097	56,187
Liabilities				
Members' deposits	b,c	12,232,840	12,255,257	(22,417)
Trade payables and other liabilities	a,d	767,193	767,193	–
		$ 13,000,033	$ 13,022,450	$ (22,417)

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

(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)

28. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The estimated fair value approximates amounts at which instruments could be exchanged in a transaction today between willing parties who are under no compulsion to act. The majority 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 (notes a – d above). These techniques are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates which reflect varying degrees of risk. Due to this estimation process and the need to use judgment, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

The level in the fair value hierarchy within which the financial assets or liabilities are categorized 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 table provides an analysis of the financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which fair value is observable:

As at October 31, 2015	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative assets	$ –	$ 3,679	$ –	$ 3,679
Embedded derivative assets	–	–	21,032	21,032
Financial assets held at fair value	$ –	$ 3,679	$ 21,032	$ 24,711
Member shares	–	(489)	–	(489)
Embedded derivative liabilities	–	(2,778)	–	(2,778)
Financial liabilities held at fair value	$ –	$ (3,267)	$ –	$ (3,267)

Fair value measurements using Level 3 inputs	
Balance at October 31, 2014	$ 17,987
Gain (loss) included in profit and loss	3,045
Balance at October 31, 2015	$ 21,032

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

28. 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).

Included in the above level 3 amount is an embedded purchase option of $21,032 (2014 - $17,987) in derivative financial instruments.

The preferable valuation method for fair value is an active quoted market price, however there is no active market for the purchase option described above. As such, an average between recent estimated market premiums and a discounted cash flow calculation is used to determine fair value. This calculation estimates all future cash flows from the purchase of the credit card business for the next 10 years to arrive at total future cash flows. These cash flows are discounted using a net present value calculation at a hurdle discount rate of 9 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.

29. 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.

(Canadian $ thousands, except per share amounts)

29. FINANCIAL RISK MANAGEMENT (CONTINUED)

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 investment, derivative, loan and deposit portfolios. The Credit Union's objective is to earn an acceptable return on these portfolios, without taking unreasonable risk, while meeting members' needs.

Risk Measurement

The Credit Union's risk position is measured based on rates charged to members. The Treasury Department manages day-to-day market risk within approved policies and reports on a regular basis to management's Asset Liability Committee ("ALCO") to ensure policy compliance. Management provides quarterly reports on these matters to the Board's Audit and Finance Committee. Tools to measure this risk include: gap analysis, which shows the sensitivity between interest sensitive assets and interest sensitive liabilities; and income sensitivity analysis (Note 30).

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 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, 2014, 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.

		2015		2014
Before tax impact of:				
1% increase in rates	**$**	**9,417**	$	365
1% decrease in rates	**$**	**(19,646)**	$	(20,781)

29. FINANCIAL RISK MANAGEMENT (CONTINUED)

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, 2015, the Credit Union's net difference between assets and liabilities in foreign currencies was $1,210 (2014 - $2,041).

Liquidity Risk

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

Risk Measurement

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

- Structural liquidity risk, which addresses the risk due to mismatches in effective maturities between assets and liabilities, more specifically the risk of over reliance on short-term liabilities to fund long-term illiquid assets;
- Tactical liquidity risk, which addresses the day-to-day funding requirements that are managed by imposing prudential limits on net fund outflows; 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 2015, the Credit Union's liquidity as at October 31, 2015 exceeds the minimum requirement.

(Canadian $ thousands, except per share amounts)

29. FINANCIAL RISK MANAGEMENT (CONTINUED)

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.

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

Financial Assets

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

Financial Liabilities

- Fixed rate liabilities, such as term deposits, securitization financing and borrowings are reported at scheduled maturity.
- Payables and other liabilities with no defined maturity are reported within the non-maturities category.

As at October 31, 2015	Non-Maturities	Less than 1 year	1 – 3 years	4 – 5 years	Over 5 years	Total
Financial Assets						
Cash and cash equivalents	$ 188,389	$ –	$ –	$ –	$ –	$ 188,389
Investments	292	942,140	–	–	1,751	944,183
Members' loans	624,589	5,213,695	6,102,159	648,224	113,666	12,702,332
Total Financial Assets	**$ 813,270**	**$ 6,155,835**	**$ 6,102,159**	**$ 648,224**	**$ 115,417**	**$ 13,834,904**
Financial Liabilities						
Members' deposits	7,329,538	3,016,921	1,750,037	105,935	30,409	12,232,840
Trade payables and other liabilities	10,956	152,009	14,602	–	–	177,567
Borrowings – Securitization	–	30,903	490,090	89,438	–	610,431
Total Financial Liabilities	**$ 7,340,494**	**$ 3,199,833**	**$ 2,254,729**	**$ 195,373**	**$ 30,409**	**$ 13,020,838**
Net Maturities	**$ (6,527,224)**	**$ 2,956,002**	**$ 3,847,429**	**$ 452,851**	**$ 85,008**	**$ 814,066**

(Canadian $ thousands, except per share amounts)

29. FINANCIAL RISK MANAGEMENT (CONTINUED)

As at October 31, 2014	Non-Maturities	Less than 1 year	1 – 3 years	4 – 5 years	Over 5 years	Total
Financial Assets						
Cash and cash equivalents	$ 124,813	$ –	$ –	$ –	$ –	$ 124,813
Investments	293	1,013,672	–	–	1,751	1,015,716
Members' loans	2,446,455	3,563,631	5,804,993	510,346	142,044	12,467,469
Total Financial Assets	$ 2,571,561	$ 4,577,303	$ 5,804,993	$ 510,346	$ 143,795	$ 13,607,998
Financial Liabilities						
Members' deposits	6,939,790	4,330,044	1,194,347	105,049	319	12,569,549
Borrowings – Term Loans and lines of credit	–	100,168	–	–	–	100,168
Trade payables and other liabilities	12,674	155,677	14,536	–	–	182,887
Borrowings – Securitization	–	1,788	5,844	40,896	–	48,528
Total Financial Liabilities	$ 6,952,464	$ 4,587,677	$ 1,214,727	$ 145,945	$ 319	$ 12,901,132
Net Maturities	$ (4,380,903)	$ (10,374)	$ 4,590,266	$ 364,401	$ 143,477	$ 706,866

(Canadian $ thousands, except per share amounts)

30. 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 29.

As at October 31, 2015	Floating Rate	0-3 months	3-6 months	6-12 months	More Than 1 Year	Non Interest Sensitive	Total
Assets							
Cash and cash equivalents	$ 164,458	$ –	$ –	$ –	$ –	$ 23,931	$ 188,389
Effective yield (%)	*0.25%*	–	–	–	–	–	*0.22%*
Investments in associates	–	–	–	–	–	173,475	173,475
Investments	–	713,152	177,463	50,819	–	2,749	944,183
Effective yield (%)	–	*0.61%*	*0.65%*	*0.99%*	–	–	*0.64%*
Members' loans	4,746,780	575,723	471,807	1,142,812	5,759,313	5,897	12,702,332
Effective yield (%)	*3.51%*	*3.88%*	*3.65%*	*3.67%*	*3.70%*	–	*3.63%*
Other assets	–	–	–	–	–	266,926	266,926
	4,911,238	1,288,875	649,270	1,193,631	5,759,313	472,978	14,275,305
Liabilities and Equity							
Members' deposits	4,843,344	1,142,762	587,041	1,270,315	3,037,664	1,351,714	12,232,840
Effective yield (%)	*0.46%*	*1.29%*	*1.41%*	*1.46%*	*1.19%*	–	*0.82%*
Other liabilities	–	–	–	–	–	177,567	177,567
Borrowings	–	5,562	5,887	19,454	579,528	–	610,431
Effective yield (%)	–	*1.51%*	*1.51%*	*1.52%*	*1.56%*	–	*1.56%*
Equity	–	–	–	–	–	1,254,467	1,254,467
	4,843,344	1,148,324	592,928	1,289,769	3,617,192	2,783,748	14,275,305
Off Statement of Financial Position							
Notional value of assets derivative financial instruments	–	–	–	–	200,000	–	200,000
Notional value of liabilities derivative financial instruments	–	(200,000)	–	–	–	–	(200,000)
Sub-total	–	(200,000)	–	–	200,000	–	–
Net 2015 Position	$ 67,894	$ (59,449)	$ 56,342	$ (96,138)	$2,342,121	$(2,310,770)	$ –

SERVUS CREDIT UNION LTD.
Notes to Consolidated Financial Statements
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30. INTEREST RATE SENSITIVITY (CONTINUED)

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 and cash equivalents	$ 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%*
Members' 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							
Members' 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 Statement 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)	$ –

(Canadian $ thousands, except per share amounts)

31. RELATED PARTY DISCLOSURES

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

Associates

Refer to note 15 Investments In Associates for a summarization of related party transactions with Alberta Central and Crelogix.

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, Chief Credit, Compliance & Operational Support Officer, Chief Credit Officer (combined with CCCO in 2015), Chief People and Corporate Services Officer and Chief Brand & Corporate Social Responsibility Officer.

	Salary & Bonus	Benefits	Post employment benefits	2015
Chief Executive Officer (CEO)	**$ 926**	**$ 61**	**$ 209**	**$ 1,196**
Chief Financial Officer (CFO)	**367**	**30**	**25**	**422**
Chief Operating Officer (COO)	**326**	**27**	**24**	**377**
Chief Information Officer (CIO)	**366**	**29**	**25**	**420**
Chief Credit, Compliance & Operational Support Officer (CCCO)	**257**	**14**	**12**	**283**
Chief People & Corporate Services Officer (CPO)	**351**	**33**	**25**	**409**
Chief Brand & Corporate Social Responsibility Officer (CBO)	**297**	**26**	**25**	**348**
	$ 2,890	**$ 220**	**$ 345**	**$ 3,455**

	Salary & Bonus	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 & 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

(Canadian $ thousands, except per share amounts)

31. RELATED PARTY DISCLOSURES (CONTINUED)

Directors' compensation and expenses		2015		2014
Compensation to directors	$	688	$	705
Expenses incurred by directors		73		94
Total	$	761	$	799

Compensation to directors ranged from $17 (2014 - $20) to $68 (2014 - $67) with an average of $50 (2014 - $54).

Short-term employee benefits include employee benefits which are payable within 12 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 12 months after October 31 of each year. Termination benefits are benefits payable as a result of an employee's employment being terminated and include severance payments and accruals for pending severance offers.

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 2015		As at October 31 2014
Key management personnel	$	2,283	$	1,224
Board of directors		3,650		2,839
Other employees		358,296		349,979
Total	$	364,229	$	354,042

Members' deposits		As at October 31 2015		As at October 31 2014
Key management personnel	$	9,589	$	6,559
Board of directors		2,306		2,329
Other employees		142,247		147,452
Total	$	154,142	$	156,340

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.

32. EVENTS AFTER THE REPORTING PERIOD

In January 2016 the Credit Union entered into a new credit facility agreement with the Canadian Imperial Bank of Commerce ("CIBC"). The facility allows for multiple advances within 364 days available in Canadian dollars renewable annually, with a maximum credit available of $50,000.

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

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

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