Management's Discussion and Analysis
Consolidated Financial Statements

For the year ended October 31, 2012

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Table of Contents

SERVUS CREDIT UNION LTD.
Management's Discussion and Analysis
For the year ended October 31, 2012

Servus Credit Union Ltd.'s (Servus or the credit union) 2012 annual report consists of two parts:

1. Management's Discussion & Analysis and Consolidated Financial Statements for the year ended October 31, 2012, which detail our credit union's financial and operating results. This document is available upon request or online at servus.ca.
2. An overview of Servus in 2012. This information is available online at servus.ca.

Note Regarding Forward-Looking Statements

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

Overview

About Servus

With roots dating back to 1938, Servus is proud of our long history of providing exceptional service to our members. Our nearly 2,300 employees serve approximately 390,000 members from over 100 locations in 62 communities across Alberta. With business support offices in Red Deer, Lloydminster and Edmonton, we are Alberta's largest credit union and the first province-wide credit union in Canada.

Servus is a co-operative financial institution that is firmly committed to a core set of principles that make us different than other financial institutions—Member Ownership, Exceptional Service, Local Decision Making, Profit Share and Community Support. Our members share directly in the credit union's success through our Profit Share program, new products and services, and community support.

Servus is a member of the Platinum Club of Canada's 50 Best Managed Companies, an honour we first received in 2009 and re-qualified for in 2010, 2011 and 2012.

Vision, Mission and Values

Servus employees and our Board of Directors worked together in 2009 to define a vision and mission for the credit union that captures what Servus should be and represent. Our vision, mission and values come together to provide a clear direction for our credit union; they focus our efforts and guide our operations.

Our Vision

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

Our Mission

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

Our Values

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

SERVUS CREDIT UNION LTD.
Management's Discussion and Analysis
For the year ended October 31, 2012

Building a stronger credit union

In 2008 three of Alberta's four largest credit unions amalgamated to form Servus. As we moved into our fourth year as one credit union, we continued to focus on the integration of our legacy organizations and the creation of a single, unified credit union—one step at a time. In 2012, we focused on key priority areas that will help us reach our long-term vision:

- Reinforcing our commitment to Members First—our member service philosophy
- Implementing internal systems and practices to help our employees work together toward our organizational goals
- Continuing our commitment to our communities through socially responsible activity
- Transitioning to a single banking system platform
- Supporting our employees' professional development and commitment to volunteerism
- Strengthening Servus' role as a key partner in the provincial, national and international credit union system

With Phase 1 of our banking system integration completed, nearly 70% of our locations are using the same banking system, and the benefits to members and employees are numerous. Upcoming integration activities will move ahead with the same care and attention to balancing future service goals with current needs of employees and members.

During all the change we managed in 2012, we still put our members and communities first. As a reflection of our success and testament to the difference we make for our members, our communities and our world, Servus and our employees were honoured to receive a number of awards this year, including:

- Re-qualification as a member of the Platinum Club of Canada's 50 Best Managed Companies for the fourth year in a row.
- Finalist in Alberta Venture's Best Overall Workplace for Over 750 Employees
- The Business and Sport Excellence Community Award from the Lethbridge Sport Council. The award celebrates a corporation/business that provides outstanding support to Lethbridge sport.
- A "Nessie" award (Spirit of Bowness Volunteerism) from the Bowness Community recognizing the Bowness branch.
- The Canadian Home Builders Association (CHBA) of Central Alberta Service Professional of the Year Award—Large Business in recognition for the outstanding service provided and strong relationships between Servus and the homebuilders, trades and suppliers. In addition to the company award, Laurie Chapman, Senior Commercial Account Manager, also won the President's Choice Award from CHBA.
- The favourite financial institution (St. Albert branch) in the 2012 St. Albert Gazette Reader's Choice Awards.
- Big Brothers Big Sisters of Lacombe and District Volunteer of the Year Award—Business of the Year for the combined efforts and service from the Bentley, Alix, Blackfalds and Lacombe branches.

Market and Economic Environment

Alberta was a great place to do business in 2012, and the performance results of the credit union reflect this.

The province's economic growth in 2012 led the nation. We have seen an increase in job creation and net migration. This, in turn, has supported good loan and deposit growth, although our province has attracted many competitors and significant work was required to win loan and deposit business.

Outside the province, the environment of economic weakness and uncertainty that shaped 2011 continued through 2012. One response to these issues has been historically low interest rates, which has put downward pressure on the net interest income earned by the credit union.

The following economic developments later in 2012 may affect circumstances in 2013:

- Slower Canadian housing sales
- Indication of a recovery in US housing
- Weakening of the Chinese economy
- Increasing recognition in the US that action must be taken on the issue of government debt
- Concerns about commodity prices, and specifically energy prices, due to weaker developing nation growth and possible North American energy self sufficiency

In total Servus was once again very fortunate to do business in a province that has experienced one of the stronger economies in the developed nations in 2012. This supported sound growth and improving profits despite the increase in competition and the low rate environment.

Key Performance Drivers

2012 Balanced Scorecard

The balanced scorecard is an at-a-glance summary of Servus's performance on a mix of financial and non-financial measures against specified targets.

Objective	Measure	2012 Target	2012 Result
Financial Performance			
Financial growth	Operating income (millions)[1]	$91.4	$106.1
Reduced dependency on interest-based income	Other income as a percentage of average assets[1]	0.590%	0.634%
Leveraging assets profitably	Return on assets[1]	0.758%	0.915%
Employee Experience			
High-level employee satisfaction	Employee engagement score as reported by employee survey	79%	79%
Dedicated to life-long learning	Per cent of employees attending development programs	60%	85%
Future-focused strategic staffing	Per cent of executive leadership and senior leadership with a succession plan	100%	100%
Member Experience			
Servus members are advocates	Member satisfaction score as reported by member survey	75%	85%
Business Processes			
Business process improvements for effectiveness and efficiency	Operating efficiency ratio[1,2]	74.142%	70.771%
	Operating expenses as a percentage of average assets[1]	2.430%	2.392%

1. Results are before patronage, taxes, employee incentives and extraordinary items.
2. The operating efficiency ratio is a ratio of expenses to revenues. In essence, it measures how much the credit union spent to earn a dollar of revenue.

SERVUS CREDIT UNION LTD.
Management's Discussion and Analysis
For the year ended October 31, 2012

A Year of Accomplishments: 2012 Results

Servus accomplished a great deal during 2012 and we are proud of what the employees in this credit union have accomplished for our members in just twelve months. During 2012 the credit union:

- Chose to consolidate banking systems on a single platform and successfully integrated the branches that, before the 2008 merger, had been part of Common Wealth Credit Union.
- Improved our member satisfaction score from 79% to 85%.
- Grew our loans by 7.2% and deposits by 8.3%.
- Maintained an employee engagement score of 79% score while working through the changes involved in a banking system conversion.
- Held the increase in operating expenses below the rate of increase in assets, improving the efficiency of the organization and through this our ability to invest in members and the credit union.
- Increased operating income in the face of increased competition and historically low rates.

The following is a more detailed discussion of our credit union's results in a number of areas.

Net Interest Income

Net interest income (the difference between what is earned on loans and paid on deposits) increased by $12.5 million in 2012, 4.1% higher than what was earned in 2011. This is a lower rate of growth than that in loans and deposits, caused by the lower interest rate environment and the increase in competition in Alberta. We expect similar downward pressure on margin during 2013 but are comfortable that Servus is ready to manage the situation through improvements in other revenue and cost containment.

Provision for Credit Losses

Provision for credit losses decreased $8.8 million in 2012. The 2011 provision included an adjustment for specific commercial loans for approximately $9.0 million. Therefore, after adjustment for unusual items, the provision was consistent with last year's expense.

Loan delinquency has fallen and the economic indicators point to a strengthening economy. Anticipated loan losses are well within the allowances that have been established by the credit union.

Other Income

Other income increased by $3.2 million or 4.5% more than in 2011. Servus has identified the growth in other income as a strategic imperative to reduce our dependence on interest rate-based income.

Other income was affected by a number of factors during 2012 including:

- A decision to offer members mutual funds that do not involve a "front end load" or commission paid at time of sale to the credit union. This is better for the member since there are no fees involved with redeeming the mutual fund, but it means the credit union earns less during the first few years that the funds are outstanding.
- A decision to change providers of certain insurance products. This decision will result in better offerings for members and better long-term income for the credit union, but has the effect of reducing income in the first years of the new agreement.

- Continuing investment in increasing our wealth services employees and access for members. The services being offered for investments, insurance, trust and estate and financial planning are being well received and results are better than forecast when we began this investment in 2011.
- Lower foreign exchange income, likely due to the Canadian dollar moving closer to par with the US dollar. When the Canadian dollar weakens, the credit union finds that members are less likely to engage in currency transactions.
- An increase in credit card income due to negotiation of the agreement with the credit card service provider and more credit cards being held by members.

Operating Expenses

During 2012 operating expenses increased $3.7 million or 1.3%, which is lower than the rate that assets increased over that period (8.3%).

The rise in costs resulted from the normal increase that is seen as the credit union grows as well as some large initiatives such as:

- Investment in the harmonized banking system. Most costs associated with the banking system are amortized over the life of the system once it is implemented, but some must be expensed in the year they are incurred.
- Four new branches (Calgary Mount Royal, Red Deer Clearview, Edmonton Millcreek Meadows, Calgary McKenzie Towne) to provide members with even greater access to services.
- Two branch relocations (Spruce Grove, Edmonton Callingwood) to new buildings to improve services to members in those areas.
- Continued expansion of our wealth services options for members to help with their financial planning needs.

Keeping the rate of cost increases below that of asset growth is important in many ways:

- The improved profits contribute to member profit sharing.
- The lower cost base can support better pricing to members.
- The portion of improved profits retained by Servus contribute to a more stable credit union.
- Some of the efficiency realized can be applied to improved services for members.
- The credit union is better positioned to deal with increased competition or unexpected negative developments.

Servus will continue to focus efforts on cost management and expects to see further progress in this area by the end of 2013.

Operating Net Income

As a result of the increased margin, reduced provision for credit losses and the relatively small increase in operating expenses, the operating net income targeted by the credit union (income before patronage and taxes and unusual items such as income from Alberta Central) increased $4.4 million or 4.3% in 2012. Total comprehensive income (income after patronage, taxes and unusual items) increased $23.2 million or 58.7%. This increase in overall income is due to the increase in operating income, plus a large gain in the value of our investment in Alberta Central and a gain in the valuation of the credit card business of our members.

Patronage and Dividends

As a credit union, improving financial results gives us the opportunity to share this success with members. This year's total Profit Share was $46.1 million.

- Servus paid $26.5 million in cash patronage to our members in December 2012—a record amount. This increase is consistent with the growth in the credit union's assets, loans and income. Patronage is shared with members based on the amount and type of business they hold with the credit union.
- Servus paid $19.6 million in common and investment share dividends to our members based on rates of 4.00% and 5.00% respectively. Servus pays these dividends each year at the discretion of the Board of Directors.

Capital

Servus enjoyed a strong capital position that was well-managed and continued to be sound in 2012. Although the ratios decreased, the underlying structure was good.

Changes in ratios:

- The credit union's capital as a per cent of total assets decreased from 7.78% to 7.49% in 2012, but was still almost double the 4% required by regulations.
- Our capital as a per cent of risk weighted assets was 13.32% compared to a required level of 8%. This decreased from 14.48% in 2011.
- Retained earnings, which are considered the credit union's primary source of capital, increased by $47.7 million to 3.88% of assets, up from 3.78% last year.
- We're close to achieving our goal of meeting the regulatory target of 4% capital to assets using retained earnings alone and expect to reach this mark in early 2013.

A number of issues impacted the way capital was measured during 2012 and contributed to the decreases noted above.

As the credit union prepared for accounting changes under International Financial Reporting Standards and after a review by the regulator, the following no longer qualified as part of the capital calculation for credit unions in Alberta:

- Intangible assets, such as our computer systems
- Certain derivative assets, such as interest rate swaps and purchase options
- Share of net assets of associates, such as Alberta Central

These accounted for a reduction of capital by $26.8 and $34.4 million in 2011 and 2012 respectively.

In addition, during the year, there was a reclassification of certain loans to a higher risk weighting multiple, accounting for an increase in risk weighted assets by $434 million. Combined with increases in commercial and agricultural loans, the risk weighted assets increased over $1.1 billion.

Without these changes the risk weighted capital ratios would have increased in 2012 to 15.33% compared to a figure of 14.61% in 2011.

Despite these adjustments, Servus is well positioned to satisfy capital requirements based on the new Basel III international standards that were introduced to the Alberta credit union system on January 1, 2013. These new requirements require the credit union to target a capital to risk weighted assets ratio of 12.0% in 2013, rising to 13.50% by 2015.

Overall, the credit union's growth in 2012 was sound and well balanced, and finished strong in the final half of the year. We see good opportunity in Alberta for 2013 and expect growth to improve slightly compared to 2012.

A Year for Moderation: Outlook for 2013

Economic developments through 2012 have been consistent with our view that the next few years will be a time of very moderate growth and compressed revenues interrupted by periods of economic concern.

The lingering impact of the financial crisis and debt accumulation in both the public and private sectors of most western countries will keep economic growth below the normal level seen in recoveries, but we expect sufficient action to be taken to avoid letting this slip back into outright recession.

Global

Although the Chinese economy has been slowing, we believe that the Chinese government has worked to bring about this outcome to cool an overheated situation. Our expectation is that they will make use of the tools at their disposal to keep growth at reasonable levels. This should provide support to commodity values, but with the amount of concern surrounding the ability of the government to achieve this outcome it will not be surprising to see volatility along the way.

Our concern remains that the recent period of hyper growth in China, combined with their unusual pairing of communism and capitalism, could result in some form of economic "accident"; however, we have seen no indication that such an accident is developing, which gives us some comfort.

In addition, we believe that a gradual recovery in the demand for US housing should support the forestry sector, which is beneficial for a number of communities that we serve in Alberta.

Working against these positive influences is the ongoing economic drag we expect to see for many years from the need to address public and private debt levels. Partisan politics could make the process lively and at the same time frustrating, but our expectation is that the US will reach conclusions in the next year about some amount of tax reform and fiscal restraint. If this does come to pass, it will likely reduce somewhat the positive effects of a US economy that is working its way back into recovery, but is also a necessary part of a long-term fiscal solution.

While it has recently faded from the headlines, we remain concerned about the situation in the European Union and believe those nations are not yet finished with their troubles. It is likely that the question of solvency, sovereign debt and the stability of the euro will resurface at some point in 2013 causing more turmoil in financial markets. At this point in time we are seeing no indications of material concern in the German or French economies, but we will be monitoring both carefully, and with some concern in 2013, since their financial stability is essential to any medium-term solution.

In conclusion, we believe that so long as the US is able to realize the moderate growth we are expecting for 2013, and China, India and the developing nations can stabilize their economic growth as expected, the global economy will continue to support a very acceptable economic backdrop for Alberta, even taking into account the occasional crisis of confidence from Europe.

National

Expectations for Canada in 2013 are similar to 2012, but with a bias to a slightly weaker situation overall.

New home construction, which has provided a material boost to the national economy, will likely pull back somewhat in 2013. In addition, the marginally slower rate of growth from nations such as China will have a modestly negative effect on commodity demand. Stronger US consumer demand should help offset these effects, but not completely.

As always, the national economy is very exposed to an unexpected change in commodity values and the rate of growth in the US economy. A large increase in either will help our situation or vice versa. At this point we feel the more likely scenario is a limited decline in commodity prices but somewhat better demand from the US, which should largely neutralize each other's effect on the Canadian economy overall. When the expectation of slower Canadian housing is added to this mix, we reach the conclusion of a Canadian economy that is similar but a bit weaker than what we experienced in 2012.

Our view on inflation is unchanged, with an expectation of no meaningful inflationary pressures for the next couple of years but concerns of greater inflationary issues by around 2015 based on the assumption of improving economic growth and more movement of money as fears rooted in the financial crisis fade.

Subdued inflation and an economy that is growing but not robust imply another year of very low interest rates. This creates a challenge for all financial institutions and any other people or entities that require a rate of return higher than the inflation rate. Our credit union is not immune to this challenge and we believe that interest-based net revenues will see downward pressure in 2013 as a result of the continuing low rate environment.

Provincial

The forecast for Alberta is quite similar to expectations for Canada—growth that is close to but slightly less than what was experienced in 2012. The good news for Alberta is that economic growth in 2012 has been quite solid, and the forecast for 2013 is another year where the Alberta economy does better than the Canadian average and much better than most western nations.

The risk to this forecast is significantly lower demand for our energy exports. Recent news has focused on the concept of US energy self-sufficiency, and our outlook is not helped by the slowing Chinese economy through 2012. If our expectations of the global environment prove correct, however, there will be sufficient demand from the global economy to keep Alberta busy through 2013. Despite this, the potential for volatility in energy prices is greater in 2013 than it was in 2012 due to concerns about US self-sufficiency and weaker demand from China.

Over the course of 2013 the credit union could see competitive pressure growing from national financial organizations that had targeted our province as the greatest opportunity for growth. This means that a solid economy is not a guarantee of financial success for the credit union. During 2012 the credit union responded well to these competitive challenges, and we will need to maintain that edge in 2013 since our expectation is that many national financial organizations will again look to this province for growth opportunities.

Alberta has shown an excellent track record for job creation in 2012 and this is attracting net migration. We believe the good story will continue overall for our province in 2013, albeit at a slightly slower pace.

2013-2015 Strategic Plan

In 2012 our credit union maintained an organization-wide focus on several strategic priorities including Members First, Value Proposition, Long-Term Delivery Strategy, Leadership Development Strategy, Succession Planning, Project Fusion and the Corporate Social Responsibility Strategy. Members First was rolled out in 2010 while Value Proposition and Corporate Social Responsibility strategies were completed and approved in 2012.

Over the next three fiscal years we will begin to operationalize the finalized priorities and will continue to focus on the completion of the Fusion program, plus finalization and implementation of the Long-Term Delivery Strategy and Leadership Development Strategy. These strategic priorities are fundamental to the credit union making progress towards achieving our vision.

Servus selected its new banking system platform in 2010 and in 2011 embarked on a new program called Fusion. The Fusion Program includes the harmonization of core banking platforms and introduction of new ancillary software, which represent a significant technology and business process improvement for Servus. Fusion will provide the necessary infrastructure to allow Servus to fully deliver on other priorities and harmonize our operations.

One of the projects within Fusion is focused on harmonizing our operations on one core banking system. The implementation of the banking system is not simply integration on a new computer program; rather it's an opportunity to bring our credit union together under one operating process and provide enhanced levels of service to our members.

The program reached a checkpoint where the results of the core banking project were reviewed to ensure the expected functionality and timeline were still aligned with the original plan. Management concluded that the development effort required and risks associated with the conversion of three separate banking systems to the new system originally selected could not be resolved in a cost-effective and timely manner. As a result an alternative banking system solution was selected and the Lloydminster region integration successfully took place in early October 2012. The integration of the Red Deer Region is scheduled for 2014.

With our learnings from the Value Proposition about how members and potential members would like to deal with Servus now and into the future, we will define and articulate a strategy that will guide our investments in current and evolving delivery channels. This strategy will serve as the foundation for branch design and geographic expansion and will leverage the new technology and delivery channels delivered by the Fusion Program.

The Leadership Development Strategy addresses the increasingly complex needs of a changing and growing organization and will capture the needs of developing employees to deliver on our vision, mission and values. We will continue to invest in our employees by offering leadership courses, supporting organizational change management and further building our employees into a team that will continue to deliver on our priorities.

Servus will continue to use a balanced scorecard system, which allows us to measure and track our success. As an effective and comprehensive forward-looking tool, the balanced scorecard provides Servus employees with a clear line of sight to what success means for our organization and our progress on achieving the strategic business plan under the following categories:

Member Experience

We will continue to enhance member experience by providing the most appropriate products, programs and services to meet members' expectations, diverse needs and changing lifestyles.

Employee Experience

We are proud that employees feel Servus provides a positive, safe, rewarding and engaging work environment. We will continue to invest in our employees through on-the-job experience, career opportunities, mentoring and leadership development programs. We will continue developing our employees to meet the goals of our credit union and to help them reach their potential.

Financial Performance

A credit union is a generational trust and must be operated with a plan to ensure long-term financial viability so that we are available to help the next generation of members. The stronger our performance and profitability, the more our member-owners gain through investment in products, services, our communities and our employees. To succeed in the long term, we must reduce our dependency on interest-based income, broaden other sources of revenue and leverage our assets profitably.

Business Processes

We will continue to review and improve our business processes as measured by the operating efficiency ratio and operating expenses as a per cent of average assets to ensure we can successfully address ongoing competition in price and service levels.

Governance and Credit Union Relations

Our Board of Directors is committed to providing guidance and direction through a superior governance model. As an organization, we are committed to being a leader in providing support and guidance to the entire credit union system.

In planning for our future, it remains crucial that we keep our focus on our vision, mission and values. We continue to build the foundations of our organization so that when we are fully integrated, we are ready to seize opportunities that will bring us closer to our vision.

Risk Management

Servus has in place a risk management structure that enables us to adapt to changes in economic and operational environments. The following is an overview of this structure and the types of risk we are typically exposed to. (See Note 30 on Financial Risk Management in the 2012 Consolidated Financial Statements for more details.)

Enterprise Risk Management

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

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

We believe that effective enterprise risk management is a journey and not a destination, so we continue to grow, evolve and adapt our risk management program. The framework we use provides processes to identify risks and assess the likelihood of their occurrence and impact. The framework is also used to establish policies, procedures and controls to ensure that we manage risk within acceptable tolerances.

Servus' enterprise risk management governance model begins with oversight by the Board of Directors, either directly or through its committees, as shown in Figure 1.

The President and Chief Executive Officer (CEO) is responsible and accountable for risk management. Day-to-day responsibility is delegated to the Chief Risk Officer. Three management committees, the Asset Liability Committee, the Management Credit Committee and the Management Risk Committee identify, assign and monitor risks through their work. Ownership of key risks is delegated to the appropriate Executive Leadership Team member.

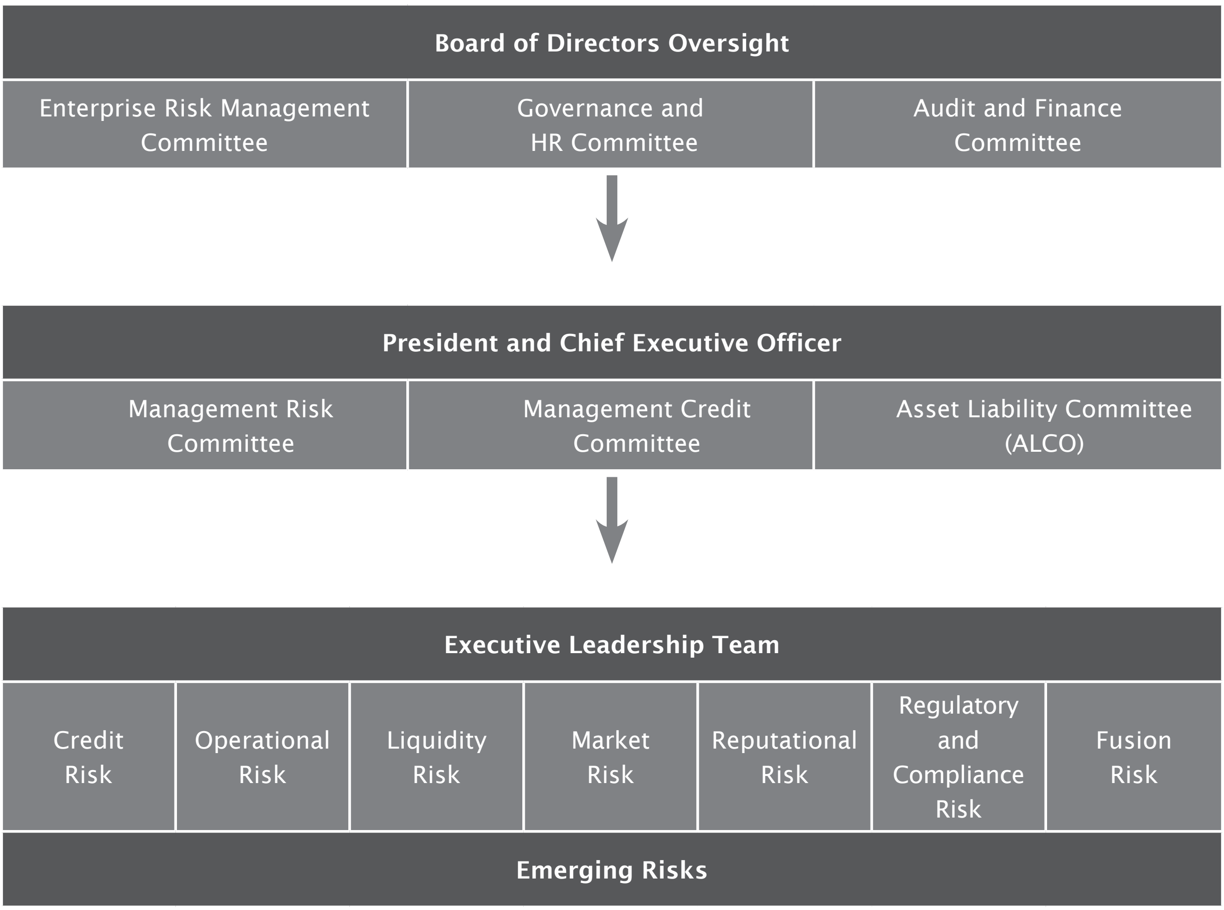

Figure 1: Servus Credit Union's Enterprise Risk Management Governance Model

Risk Management Framework

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

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

1. Policies, Strategies and Limits

The governance, risk management direction and extent of Servus’ risk-taking activities are established through policies, strategies and limits. Policies are also developed based on the requirement of the regulator and require input from the Board of Directors and senior management.

2. Guidelines

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

3. Processes and Standards

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

4. Measurement and Reporting

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

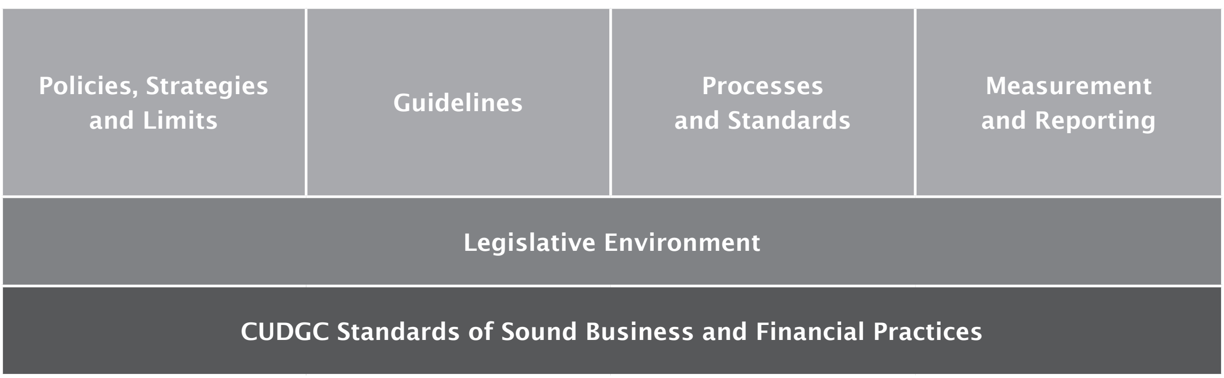

Figure 2: Servus Credit Union’s Risk Management Framework

Types of Risk

Servus groups its major risks into seven categories:

1. Credit Risk

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

Servus manages credit risk through policies and limits to ensure broad diversification across Alberta and within various industries and product mixes. We also manage risk through maximum limits on individual and connected accounts, participation in syndicated loans and minimum standards for loan quality. As well, Servus manages this risk through experienced and skilled lenders who have demonstrated experience, education and clearly documented decision-making authority, and through approval processes that include a Management Credit Committee.

2. Operational Risk

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

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

3. Liquidity Risk

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

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

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

4. Market Risk

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

To manage interest rate risk effectively, the Asset Liability Committee establishes policy guidelines and meets regularly to monitor the Bank of Canada's position and determine future strategies. The Board of Directors approves and reviews interest rate risk policies at least annually, with regular reporting provided to the Board's Enterprise Risk Management and Audit and Finance Committees.

5. Reputation Risk

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

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

6. Regulatory and Compliance Risk

Regulatory and compliance risk is the risk of Servus not fulfilling the requirements of external or internal regulatory functions. Regulatory risk differs from other banking risks, such as credit risk or market risk, in that it is typically not a risk actively or deliberately assumed by management in expectation of a return. Rather, it occurs as part of the normal course of operating our credit union.

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

7. Fusion Risk

The Fusion Program includes the harmonization of three core banking system platforms and the introduction of new ancillary software which represents a significant technology and business process transformation program for Servus. Fusion Program risk is defined in Servus as the risk that the credit union is exposed to by investing significant resources in the multiple projects which compose the Fusion Program over the next two years. Servus manages the program through project best practices and controls, regular internal risk reviews and quarterly audits by an independent audit team.

8. Emerging Risks

Servus monitors and reports to both the Management Risk Committee and the Board Enterprise Risk Management Committee on risks that, although not fitting in any of the previous risk categories, may have an impact on its operations. These include changing economic conditions, impacts of geographic concentration within single industry locations, fraud and crime trends, and issues relating to the continuing consolidation through amalgamations.

Although the use of metrics to measure emerging risk is relatively new and there are few proven methods for detecting leading indicators, we are working on developing qualitative and quantitative measures. Meanwhile, Servus uses measures such as personal bankruptcy rates, increases in unemployment and layoffs, changes in oil prices, housing starts and prices, and other indicators to identify issues and trends.

Corporate Governance

Corporate Governance

Servus' Board of Directors represents our member-owners, ensuring they have a voice in the direction of the credit union. By adhering to the principles of openness, transparency, accountability, ethics and rule of law, they are a strong and effective governing body that keeps the best interests of our members top-of-mind. The Servus Board sets the strategic direction and puts in place the controls necessary for our credit union to be a success.

Board Mandate

The Board of Directors ensures that Servus creates and maintains value for stakeholders and serves the needs of member-owners and their communities. The Board sets the strategic direction, formulates and monitors policies, evaluates organizational performance and ensures an effective risk management framework is in place.

The Board has adopted a policy governance model and functions in accordance with the *Credit Union Act* and Servus Credit Union bylaws. It is responsible for the election of the Board Chair and Vice Chair, and for selecting Directors to represent Servus on the Board of Credit Union Central of Alberta.

Board Structure

The Servus Credit Union Board of Directors is made up of 12 Servus member-owners. The Board has established committees to help govern the organization effectively and to better manage risk. There are three Board committees:

Audit and Finance Committee

The Audit and Finance Committee oversees the financial reporting process, reviews financial statements, liaises with internal and external auditors and regulators and reviews internal control procedures. The committee consists of four Directors; the Board Chair, who serves as an ex-officio member; and an external resource who functions as an advisor to the Committee. Servus' senior management and external auditors also attend the Audit and Finance Committee meetings. The committee's terms of reference, guidelines and requirements are outlined in the *Credit Union Act*, regulations and bylaws. The Board defines the skills and abilities needed on the committee and chooses its members accordingly.

Governance and Human Resource Committee

The Governance and Human Resource Committee establishes and maintains effective governance guidelines, ensures the performance and succession of senior leadership and ensures compliance with the *Credit Union Act*, governance policies and Servus bylaws. This committee also serves as the Nominating Committee for the Director elections. It consists of four Directors and the Board Chair, who serves as an ex-officio member. The Board outlines their terms of reference, guidelines and requirements.

Enterprise Risk Management Committee

The Enterprise Risk Management Committee oversees the identification, understanding and management of risks that may affect Servus. It consists of four Directors and the Board Chair, who serves as an ex-officio member. The Board determines the Committee's terms of reference, guidelines and requirements.

The Board of Directors reviews the roles, responsibilities and membership of each Board committee on a yearly basis. In addition to these committees, the Board of Directors appoints qualified employees, as recommended by the President & CEO, to a Credit Committee. This committee authorizes loans within the limits established by the Board of Directors and provides a bi-monthly written report to the Board.

Position Descriptions

Servus' Directors provide strategic advice and business oversight of our operations. They are required to act honestly and in good faith with a view to the best interests of our credit union. They must exercise care, diligence and skill. The Board annually reviews the position descriptions for the Board Chair, Committee Chairs, Directors and the CEO.

Orientation and Education

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

We encourage all Directors to take part in educational opportunities, such as those offered by the Institute of Corporate Directors, as well as industry-related conferences, meetings and seminars. Further, we ask our Directors to participate in Community Council meetings.

These opportunities enable our Directors to further develop their knowledge and skills and enhance their performance on the Board. A Board Competency and Skills matrix was developed and introduced for use by the Board in 2012 to assist in determining training needs.

Ethical Conduct

The Board is committed to ethical, professional and lawful conduct. Directors work to ensure that Servus meets all public, regulatory and member expectations in compliance with existing laws.

Directors must represent loyalty without conflict to the interests of our members. This accountability comes before any personal interest. We require our Directors to declare any conflicts or perceived conflicts of interest immediately upon becoming aware of them.

Nomination

Servus holds an annual election to fill vacancies on the Board. Our member-owners elect Directors to a three-year term, at the end of which they may run for re-election. Servus has no limit on the number of terms a Director may serve. The Governance and Human Resource Committee plays an active role in identifying potential candidates for the Board. Individuals interested in serving on the Board must submit nomination papers that provide detailed information such as educational background; a self-assessment of skills, knowledge and experience; and previous board experience. Candidates must also undergo a criminal records check.

We provide profiles on all Board candidates to our members in statement mailings, on the website and in our branches. Voting is held at every branch and online. The Governance and Human Resource Committee reviewed the electoral process in 2012 and has recommended changes to the Board for implementation in the 2013 election:

- The total number of candidates is limited to twice the number of available positions.
- Candidate selection criteria is based on skills and competencies key to the continued success of the credit union.
- The Board nomination committee is made up of members of the Board's Governance and Human Resource Committee two Community Council representatives and an independent advisor from the private sector.
- Amended candidate eligibility prevents sitting Members of the Legislative Assembly from running for the Board.
- Candidates provide responses to four questions, in addition to providing other background materials, which are then made available so members can get a better understanding of where the candidates stand on key issues.
- Amended campaigning policy allows for the use of social media by candidates.

Director Remuneration

Servus provides each member of the Board with an honorarium for their activities during the course of their term. These activities include attending Board, committee and general meetings; branch openings; education and planning sessions; and credit union system conferences. In addition, we reimburse Board members for all travel expenses and pay a meeting per diem.

Honorarium

Directors	$30,000 per annum
Vice Chair	$35,000 per annum
Chair	$40,000 per annum

Servus' management, or a third party on behalf of Servus, conducts regular compensation reviews to help determine the appropriate rate of remuneration for the Board. We also participate in bi-annual national credit union surveys that look at Board remuneration.

Performance Evaluation

We evaluate the Board of Directors and the CEO each year to assess their effectiveness and to identify opportunities for improvement. Performance evaluations for the Board include a self-assessment tool as well as a peer review. Additional feedback is gathered for the Board Chair and each Board Committee regarding their performance and areas for improvement.

The Board assesses the CEO's performance each year by reviewing results against the Balanced Scorecard targets as well as looking at overall performance.

Board and Committee Meetings

The Board of Directors held seven regular meetings in 2012 plus a two-day planning session in April.

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

Directors participated in:

- Servus' Annual General Meeting held in Medicine Hat in March 2012.
- The Credit Union Central of Alberta Conference and Annual General Meeting in April 2012.
- The Annual Canadian Credit Union Conference in May 2012.
- The World Credit Union Conference in July 2012.

Adoption of International Financial Reporting Standards

In February 2008 the Canadian Accounting Standards Board announced that Canadian Generally Accepted Accounting Principles (Canadian GAAP) for publicly accountable enterprises would be replaced by International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. Servus meets the definition of a publicly accountable enterprise and was required to transition its basis of accounting accordingly for the fiscal year ending October 31, 2012, as well as the October 31, 2011 comparative data and the November 1, 2010 opening balances.

IFRS uses a conceptual framework similar to Canadian GAAP; however, significant differences exist in certain matters of recognition, measurement and presentation. Most adjustments required on transition to IFRS were made retrospectively against opening retained earnings on the first comparative balance sheet.

Transitional adjustments relating to those standards where comparative figures are required to be restated and applied retrospectively were made as of the first day of the year of adoption. IFRS 1 "First-Time Adoption of International Financial Reporting Standards," provides entities adopting IFRS for the first time with a number of optional and mandatory exceptions in certain areas to the general requirement for full retrospective application of IFRS.

The transition resulted in some increases and some decreases to retained earnings and changes to the way we classify information in the financial statement. The net impact and the details of this transition are clearly disclosed in the consolidated financial statements under Note 3 – Significant Accounting Policies and Note 34 - First Time Adoption of International Financial Reporting Standards.

SERVUS CREDIT UNION LTD.
Consolidated Financial Statements

For the year ended

October 31, 2012 with comparative figures for 2011

SERVUS CREDIT UNION LTD.
Consolidated Financial Statements

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

Systems of internal control and reporting procedures are designed to provide reasonable assurance that financial records are complete and accurate so as to safeguard the assets of the organization. These systems include establishment and communication of standards of business conduct through all levels of the organization to prevent conflicts of interest and unauthorized disclosure, to provide assurance that all transactions are authorized, and to ensure proper records are maintained. Internal audit is one method that provides management with the ability to assess the adequacy of these controls. Further, the systems of internal control are reviewed by the Credit Union's external auditors to the extent necessary to render their opinion on the Consolidated Financial Statements.

The Board of Directors has approved the Consolidated Financial Statements. The Board has appointed an Audit and Finance Committee, comprised of four directors, to review with management, advisors and auditors the annual consolidated financial statements in detail prior to submission to the Board for final approval. The Audit and Finance Committee has also received regular reports on internal control findings from the internal auditor. Deloitte LLP, the independent external auditors appointed by the Board of Directors, 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 audit report outlines the scope of their examination and their opinion.

Garth Warner

President & Chief Executive Officer (CEO)

Ian Glassford, MBA, CMA

Chief Financial Officer (CFO)

Edmonton, Alberta

January 24, 2013

Deloitte.

Independent Auditor's Report

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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 statements of financial position as at October 31, 2012, October 31, 2011 and November 1, 2010, and the consolidated statements of income and comprehensive income, consolidated statements of changes in members' equity and consolidated statements of cash flows for the years ended October 31, 2012 and October 31, 2011, 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 audits. We conducted our audits 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 in our audits 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, 2012, October 31, 2011 and November 1, 2010, and its financial performance and its cash flows for the years ended October 31, 2012 and October 31, 2011 in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Accountants

January 24, 2013

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

	Notes	**October 31 2012**	October 31 2011 (Note 34)	November 1 2010 (Note 34)
Assets				
Cash and cash equivalents	5	$ **176,832**	$ 118,667	$ 144,231
Investments	6	**913,323**	770,030	890,647
Members' loans	7,8,9	**10,677,621**	9,957,017	9,364,724
Income taxes receivable		**–**	8,647	13,774
Assets held for sale	10	**14,586**	19,291	19,345
Other assets	11	**11,951**	11,757	14,220
Property and equipment	12	**181,898**	189,222	193,454
Investment property	13	**10,405**	10,727	5,466
Derivative financial assets	14	**22,307**	20,994	19,015
Investments in associates	15	**150,697**	131,979	122,601
Intangible assets	16	**25,577**	11,213	11,610
Deferred income tax assets	17	**60**	78	23
Total assets		**12,185,257**	11,249,622	10,799,110
Liabilities				
Members' deposits	18	**11,047,029**	10,197,573	9,819,369
Trade payables and other liabilities	20	**132,140**	134,051	113,909
Income taxes payable		**1,922**	450	–
Provisions	21	**2,250**	5,533	1,500
Derivative financial liabilities	14	**7,732**	6,566	8,730
Investment shares	23	**471**	471	485
Defined benefit plans	22	**7,570**	7,120	7,265
Deferred income tax liabilities	17	**9,524**	6,249	6,597
Total liabilities		**11,208,638**	10,358,013	9,957,855
Equity				
Share capital	23	**502,199**	464,427	439,482
Retained earnings		**473,163**	425,512	401,208
Accumulated other comprehensive income		**225**	636	565
Total equity attributable to members of the Credit Union		**975,587**	890,575	841,255
Non-controlling interest		**1,032**	1,034	–
Total equity		**976,619**	891,609	841,255
Total liabilities and equity		$ **12,185,257**	$ 11,249,622	$ 10,799,110

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

Approved on behalf of the Board of Directors

Doug Hastings, Chair, Board of Directors

Perry Dooley, Chair, Audit and Finance Committee

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

	Notes	Year Ended October 31 2012	Year ended October 31 2011 (Note 34)
Interest Income			
Members' loans		$ 446,321	$ 442,936
Investments	24	7,898	12,733
Total interest income		454,219	455,669
Interest Expense			
Members' deposits		135,423	149,635
Other interest expense	25	557	335
Total interest expense		135,980	149,970
Net interest income		318,239	305,699
Other income	26	74,638	71,408
Share of profits from associates	32	16,334	6,121
Net interest income and other income		409,211	383,228
Provision for credit losses	8	8,415	17,209
Net interest income after provision for credit losses		400,796	366,019
Operating Expenses			
Personnel		170,942	157,562
General		62,679	63,276
Occupancy		19,611	18,373
Member security		18,090	17,920
Depreciation		15,018	15,137
Organization		4,042	4,602
Impairment of intangible assets	16	1,119	10,281
Amortization		1,411	2,047
Total operating expenses		292,912	289,198
Income before patronage allocation to members and income taxes		107,884	76,821
Patronage allocation to members	23	26,488	25,121
Income before income taxes		81,396	51,700
Income taxes	17	18,232	12,218
Net income		63,164	39,482
Other comprehensive (loss) income		(411)	71
Total comprehensive income		$ 62,753	$ 39,553
Other Comprehensive (loss) income for the year, net of tax:			
Actuarial losses on defined benefit pension plans (net of income taxes of $109, 2011 – $20)		(411)	71
Total other comprehensive (loss) income		$ (411)	$ 71
Total Comprehensive Income			
Comprehensive income attributable to the members		62,755	39,553
Comprehensive loss attributable to non-controlling interest		(2)	–
Total comprehensive income		$ 62,753	$ 39,553

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

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

	Notes		Year ended October 31 2012		Year ended October 31 2011 (Note 34)
Share Capital					
Common Shares					
Balance, beginning of year	23	$	358,079	$	334,745
Issued and redeemed for cash, net	23		20,625		9,422
Share dividend	23		14,323		13,912
Balance, end of year	23		393,027		358,079
Investment Shares					
Balance, beginning of year	23		106,348		104,737
Issued and redeemed for cash, net	23		(1,896)		(3,119)
Share dividend	23		4,720		4,714
Transfers in (out)			–		16
Balance, end of year	23		109,172		106,348
Share Capital, end of year	23	$	502,199	$	464,427
Retained Earnings					
Balance, beginning of year		$	425,512	$	401,208
Net income			63,164		39,482
Dividend			(15,513)		(15,178)
Retained Earnings, end of year		$	473,163	$	425,512
Accumulated Other Comprehensive Income (AOCI)					
Balance, beginning of year		$	636	$	565
Gains (Losses) on Defined Benefit Pension Plans			(411)		71
AOCI, end of year		$	225	$	636
Total Equity Attributable To Members of the Credit Union		$	975,587	$	890,575
Non-Controlling Interest					
Balance, beginning of year			1,034		–
Investments during the year			–		1,034
Net income			(2)		–
Non-Controlling Interest, end of year			1,032		1,034
Total Equity		$	976,619	$	891,609

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

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

	Year ended October 31 2012	Year ended October 31 2011 (Note 34)
Cash Flows From (Used in) Operating Activities		
Net income	**$ 63,164**	$ 39,482
Adjustments for non-cash items and others		
Net interest income	**(318,239)**	(305,699)
Provision for credit losses	**8,415**	17,209
Net loss attributable to non-controlling interest	**(2)**	–
Net income from investments in associates	**(16,334)**	(6,121)
Depreciation and amortization	**16,429**	17,226
Impairment of intangible assets	**1,119**	10,281
Impairment of property and equipment	–	1,037
Loss on assets held for sale	**1,281**	–
Loss on sale of property and equipment	**1,052**	471
Income taxes	**18,232**	12,218
Adjustments for net changes in operating assets and liabilities		
Change in members' loans	**(724,471)**	(609,827)
Change in members' deposits	**853,549**	384,015
Change in assets held for sale	**3,637**	(6,143)
Change in derivatives	**(131)**	(255)
Net change in other assets and trade payables, provisions and other liabilities	**(2,203)**	18,460
Income taxes received and paid	**(8,113)**	(6,641)
Interest received	**449,185**	455,798
Interest paid	**(140,528)**	(155,781)
Net cash from (used in) operating activities	**206,042**	(134,270)
Cash Flows From (Used in) Investing Activities		
Additions to intangible assets	**(16,813)**	(11,931)
Additions to property and equipment and investment property	**(16,574)**	(13,876)
Proceeds on investments in associates	–	1,011
Cash acquired from business combination	**313**	3,250
Proceeds on disposal of property and equipment, investment property	**7,945**	2,702
Purchase of Alberta Central shares	**(4,500)**	(5,074)
Dividend received	**2,115**	1,305
Investments	**(142,352)**	120,813
Net cash from (used in) investing activities	**(169,866)**	98,200
Cash Flows From (Used in) Financing Activities		
Advances of term loans payable and line of credit	–	4
Repayment of obligation under finance leases	**(270)**	(259)
Non-controlling interest	–	1,034
Dividend paid	**(592)**	(618)
Tax recovery on dividends paid	**4,122**	4,042
Shares, issued and redeemed, net	**18,729**	6,303
Net cash from financing activities	**21,989**	10,506
Increase (decrease) in Cash	**58,165**	(25,564)
Cash and cash equivalents, beginning of year	**118,667**	144,231
Cash and cash equivalents, end of year	**$ 176,832**	$ 118,667

The accompanying notes are an integral part of these consolidated financial statement

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 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 using the accounting policies the Credit Union adopted for its financial statements for the year ending October 31, 2012. The significant accounting policies applied in the preparation of the financial statements are described in Note 3. The significant accounting policies have been applied consistently to all periods presented in these financial statements including for the year ended October 31, 2011 and the opening IFRS statement of financial position as of November 1, 2010 for purposes of the transition to IFRS. The Credit Union is a first-time adopter of IFRS and has followed the requirements of IFRS 1 *First Time Adoption of IFRS* ("IFRS 1") in its initial application of IFRS.

The consolidated financial statements for the year ended October 31, 2012 were authorized for issue by the Board of Directors on January 24, 2013.

Application of International Financial Reporting Standards ("IFRS")

The Credit Union's financial statements were prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") up to and including October 31, 2011, and restated using IFRS for these financial statements. The financial reporting requirements of Canadian GAAP differ in a number of areas from those prescribed by IFRS. The Credit Union's financial statements for the year ended October 31, 2012 are the first annual consolidated financial statements prepared in compliance with IFRS. The Credit Union's transition date to IFRS was November 1, 2010 and accordingly, the Credit Union prepared its opening IFRS consolidated statement of financial position as at that date and has complied with IFRS 1. IFRS 1 provides specific recognition, measurement, presentation and disclosure requirements for any entity preparing its first set of consolidated financial statements in accordance with IFRS. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Credit Union is provided in Note 34.

Upon transition to IFRS, the general principle is that the financial statements must be prepared on a retrospective basis as if IFRS had always been applied. In addition to exempting entities from the requirement to restate comparatives for particular standards, IFRS 1 provides certain mandatory exceptions and grants certain optional exemptions from full retrospective application of IFRS. In preparing these consolidated financial statements in accordance with IFRS 1, the Credit Union has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of IFRS.

2. BASIS OF PRESENTATION (CONTINUED)

In preparing the Credit Union's financial statements for the year ended October 31, 2012, management has amended certain accounting policies previously applied in the Canadian GAAP consolidated financial statements to comply with specific IFRS requirements. A reconciliation of the impact of the transition from Canadian GAAP to IFRS on the Credit Union's Consolidated Statement of Financial Position as at November 1, 2010, Consolidated Statement of Financial Position as at October 31, 2011, Consolidated Statement of Net Income and Comprehensive Income for the year ended October 31, 2011, and reconciliation of changes to Members' Equity, with accompanying narrative explanations, is provided in Note 34.

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 ("C$"), which is the Credit Union's functional currency.

Use of Estimates, Assumptions and Judgements

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

The use of estimates and assumptions have been made in the following areas: income taxes, deferred tax assets and liabilities, fair values used in purchase price allocation, 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 Judgements

The preparation of the financial statements requires management to make critical judgements that affect the carrying amounts of certain assets, liabilities, income, expenses, and the related disclosures during the year. Critical judgements have been made in the following areas: impairment of non-financial and financial assets, allowance for credit losses, lease classification, consolidation of Special Purpose Entities ("SPEs"), identification of net assets acquired in business combinations and accounting for investments in associates.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

Subsidiaries

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

Subsidiaries are entities controlled by the Credit Union. Control exists when the Credit Union has the power to govern the financial and operational policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the Credit Union's consolidated financial statements from the date that control commences until the date that control ceases. The financial statements of the subsidiaries have been prepared using accounting policies consistent with the Credit Union.

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

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

- Home Start Financial Ltd.;
- All Source Mortgages Ltd.

  These entities provide mortgage brokerage services to a number of lenders, including the Credit Union.

- Servus Wealth Strategies Ltd., which provides wealth management services;
- 135938 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.

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

Non-Controlling Interest

Other parties' interest in subsidiaries (1626210 Alberta Ltd.) of the Credit Union are reported in Members' Equity as Non-controlling interests. Income attributable to Non-controlling interests is reported in the consolidated statement of income and comprehensive income as an allocation of net income and total comprehensive income.

Investments in Associates

Investments in associates include entities over which the Credit Union has significant influence, but not control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Credit Union Central Alberta Limited ("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 net income from associates in the consolidated statement of income and comprehensive income. Dividends received are recorded as a reduction in the investment. Intercompany transactions and balances are eliminated to the extent of the Credit Union's interest in its associates.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business Combinations

Business combinations are accounted for using the acquisition method. The assets and liabilities of the acquiree are recognized at their fair value at the date of the acquisition, which is the date on which control is transferred to the Credit Union. Transaction costs incurred that are directly attributable to the acquisition are expensed as incurred.

Goodwill

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

Financial Instruments – Recognition and Measurement

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

Financial Instruments at Fair Value through Profit or Loss

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Financial instruments included in this category are recognized initially at fair value with transaction costs recognized in net income.

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

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those which the Credit Union intends to sell in the short term, which are classified as held for trading, and those that are designated as held at FVTPL.

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. The Credit Union has classified certain term deposit investments as held-to maturity for the year ended October 31, 2011. No financial assets are classified as held-to-maturity for the year ended October 31, 2012.

Available-for-Sale Financial Assets

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

Debt securities and equity securities are classified as available for sale and are measured at fair value. The Credit Union uses current market interest rate quotations to estimate the fair values of these investments. Unrealized gains and losses, net of taxes, are reported in other comprehensive income. The Credit Union currently does not have any financial assets classified as available-for-sale that are measured at fair value.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Other Financial Liabilities

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

Financial Instruments – Derecognition

Financial assets are derecognized when the rights to receive cash flows from the asset have expired or substantially all the risks and rewards of ownership of the assets have been transferred.

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

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

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments are measured at fair value on the consolidated statement of financial position. Derivatives with a favorable fair value are recorded in derivative financial assets. Derivatives with an unfavorable fair value are recorded in other liabilities. Gains and losses on derivative financial instruments are recorded in net interest income on 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 when the host contract is not classified as FVTPL.

Estimated Fair Value

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. The best evidence of the fair value of an asset or liability at initial recognition is the fair value of the consideration received or paid.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 loss expense 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 loss expense in the consolidated statement of income and comprehensive income.

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

Following impairment, interest income continues to be recognized using the original effective rate of interest. This rate is then used to discount the future cash flows of the impairment for the purpose of measuring the potential loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the specific or collective allowance. The amount of the reversal is recognized within the provision for credit losses in the consolidated statement of income and comprehensive income.

The Credit Union writes off amounts charged to the allowance account against the carrying value of an impaired loan when there is no realistic prospect of future recovery and all collateral has been realized. The Credit Union seeks to work with the Members to bring their accounts to a current status before taking possession of collateral. The arrears profile of the member is extinguished after six months if the Member has complied with any arrangements to bring the account to a current status and is continuing to stay current.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Assets Held for Sale

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

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

If the Credit Union has classified an asset as held for sale, but the recognition criteria are no longer met, then the Credit Union ceases to classify the asset as held for sale. The Credit Union measures an asset that ceases to be classified as held for sale at the lower of either: (i) the carrying amount before the asset was classified as held for sale, adjusted for any depreciation that would have been recognized had the asset not been classified as held for sale, or (ii) its recoverable amount at the date of the subsequent decision not to sell. Any required adjustments to the carrying amount of an asset that ceases to be classified as held for sale will be transferred to net income in the period in which the recognition criteria are no longer met.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

The estimated useful lives are as follows:

Buildings	20 to 40 years
Furniture, office equipment and vehicles	3 to 20 years
Airplane	10 years
Leasehold improvements	5 to 10 years
Computer equipment	3 to 5 years
Equipment under finance leases	3 to 5 years

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

Investment Property

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible Assets

Intangible assets are measured at cost less accumulated amortization and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset and borrowing costs. The cost of internally generated assets includes the cost of materials and direct labour, and any other costs directly attributable to bringing the asset to a working condition for its intended use.

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

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

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

Computer software and development costs	3–12 years

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

Impairment of Non-Financial Assets

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Leases

The Credit Union as a lessee

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

Other arrangements containing leases are operating leases. Payments made under operating leases are recognized in net income on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense on a straight-line basis over the term of the lease.

The Credit Union as a lessor

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

Provisions

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee Benefits

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

Short-Term Employee Benefits

Short term employee benefits, such as salaries, 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 in net income, unless the changes to the plan are conditional on employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight line basis over the vesting period.

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

Members' Shares

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Revenue Recognition

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

Interest income and expense

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

Account service charges

Account service charges are recognized as income when charged to the Members.

Commissions and fees

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

Dividend income

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

Patronage Allocation to Members

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

Income tax expense comprises current and deferred tax. Current and deferred taxes are recognized in net income except to the extent that they relate to a business combination or items that are recognized in other comprehensive income or directly in equity. Tax impacts that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend is recognized.

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

Deferred tax is recognized in respect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is 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 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 taxed levied by the same authority on the same taxable entity, or on different tax entities but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realized simultaneously.

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

Financial Guarantees

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

Foreign Currencies

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

4. FUTURE ACCOUNTING CHANGES

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

IAS 1 Presentation of Financial Statements

The standard has been amended to require presentation of items in other comprehensive income into two groups, dependent on whether or not they may be subsequently reclassified into net income. The amendment is effective for financial years beginning on or after July 1, 2012.

IAS 19 Employee Benefits

The standard has been amended to remove the option to defer recognition of actuarial gains (losses), commonly known as the corridor method, and to require that these gains (losses) be recognized in other comprehensive income immediately. In addition, the net change in defined benefit liabilities and assets is now split into three elements: service cost, net interest and remeasurements. Remeasurements will be immediately recognized in other comprehensive income. The amended standard also includes enhanced disclosure requirements around the characteristics of defined benefit plans and risks. This amended standard is effective for financial years beginning on or after January 1, 2013.

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. The amended standard is effective for financial years beginning on or after January 1, 2014.

IFRS 7 Financial Instruments: Disclosures

The standard has been amended requiring an entity to disclose information to enable users of the financial statements to evaluate the effect or potential effect of netting arrangements on the entity's financial position including the effect or potential effect of rights of set-off associated with the entity's recognized financial assets and recognized financial liabilities. The amended standard is effective for financial years beginning on or after January 1, 2013.

IFRS 9 Financial Instruments

The new standard is the first phase of the project to replace IAS 39 Financial Instruments: Recognition and Measurement. The standard simplifies the current financial asset classifications contained in IAS 39 by creating two classifications – amortized cost and fair value. In addition the standard will require that all equity instruments are measured at fair value. The new standard is currently effective for financial years beginning on or after January 1, 2015. The second and third phases of the project dealing with financial asset impairment and hedging remain in development and so the full impact of the standard on the Credit Union will be unknown until the completion of the project.

IFRS 10 Consolidated Financial Statements

The standard replaces the consolidation requirements currently contained in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidate – Special Purpose Entities. IFRS 10 includes a new definition of control to be applied to all entities in determining which entities are consolidated. The new standard and amendment to IAS 27 are effective for financial years beginning on or after January 1, 2013.

(Canadian $ thousands, except per share amounts)

4. FUTURE ACCOUNTING CHANGES (CONTINUED)

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

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

As a result of the replacement of IAS 31, IAS 28 has been expanded to provide consistent guidance on equity accounting for both associates and joint ventures. The new standard and amended standards are effective for financial years beginning on or after January 1, 2013.

IFRS 12 Disclosure of Interests in Other Entities

The new standard establishes disclosure requirements for all interests in other entities, including associates, joint arrangements and special purpose entities. The standard carries forward existing disclosures and introduces significant additional disclosure requirements that focus on the nature of and risks associated with an entity's interests in other entities. The new standard is effective for financial years beginning on or after January 1, 2013.

IFRS 13 Fair Value Measurement

IFRS 13 is a new standard on fair value measurement for use across all standards. IFRS 13 does not change when an entity is required to use fair value, but provides guidance on how to measure fair value when permitted or required by an IFRS. The new standard is effective for financial years beginning on or after January 1, 2013.

5. CASH AND CASH EQUIVALENTS

	As at October 31 2012	As at October 31 2011	As at November 1 2010
Cash on hand	**$ 17,194**	$ 16,048	$ 14,251
ATM deposits	**1,458**	2,042	5,249
ATM cash on hand	**7,172**	5,116	5,157
ATM recycler cash on hand	**1,579**	1,006	719
Foreign exchange cash	**39**	28	42
Cash with Alberta Central	**149,846**	94,862	119,733
Cheques and items in transit	**(456)**	(435)	(920)
Total	**$ 176,832**	$ 118,667	$ 144,231

(Canadian $ thousands, except per share amounts)

6. INVESTMENTS

	As at October 31 2012	As at October 31 2011	As at November 1 2010
Term deposits with Alberta Central	$ 909,286	$ 764,885	$ 879,635
Mortgage pools	–	1,869	8,034
Debentures	1,250	1,250	1,250
Other	816	996	894
	911,352	769,000	889,813
Accrued interest	1,971	1,030	834
Total	$ 913,323	$ 770,030	$ 890,647

7. MEMBERS' LOANS

	Gross Amount	Specific allowance	Collective allowance	Net Amount	Impaired Loans
As at October 31, 2012					
Residential mortgages	$ 6,121,552	$ 155	$ 547	$ 6,120,850	$ 825
Commercial mortgages and loans	3,182,053	26,716	1,818	3,153,519	36,742
Consumer loans	1,060,593	3,143	2,973	1,054,477	4,831
Agricultural mortgages and loans	311,421	10	2	311,409	596
	10,675,619	30,024	5,340	10,640,255	42,994
Accrued interest	38,987	1,182	439	37,366	–
Total	$ 10,714,606	$ 31,206	$ 5,779	$ 10,677,621	$ 42,994

	Gross Amount	Specific allowance	Collective allowance	Net Amount	Impaired Loans
As at October 31, 2011					
Residential mortgages	$ 5,705,616	$ 884	$ 535	$ 5,704,197	$ 4,064
Commercial mortgages and loans	2,960,388	21,055	2,165	2,937,168	55,063
Consumer loans	1,018,100	4,378	3,507	1,010,215	7,656
Agricultural mortgages and loans	272,771	38	114	272,619	1,826
	9,956,875	26,355	6,321	9,924,199	68,609
Accrued interest	32,818	–	–	32,818	–
Total	$ 9,989,693	$ 26,355	$ 6,321	$ 9,957,017	$ 68,609

	Gross Amount	Specific allowance	Collective allowance	Net Amount	Impaired Loans
As at November 1, 2010					
Residential mortgages	$ 5,333,289	$ 570	$ 754	$ 5,331,965	$ 3,302
Commercial mortgages and loans	2,792,662	7,083	4,616	2,780,963	23,301
Consumer loans	965,164	4,630	5,096	955,438	7,111
Agricultural mortgages and loans	263,651	23	413	263,215	1,103
	9,354,766	12,306	10,879	9,331,581	34,817
Accrued interest	33,143	–	–	33,143	–
Total	$ 9,387,909	$ 12,306	$ 10,879	$ 9,364,724	$ 34,817

(Canadian $ thousands, except per share amounts)

8. ALLOWANCE FOR CREDIT LOSSES

Specific Allowance

	Residential	Commercial	Consumer	Agricultural	Interest	Total
As at November 1, 2011	$ 884	$ 21,055	$ 4,378	$ 38	$ 3,471	$ 29,826
Recoveries of previous loan write offs	–	48	1,280	–	–	1,328
Allowance charged to net income	(79)	8,732	2,606	(13)	(2,289)	8,957
	805	29,835	8,264	25	1,182	40,111
Loans written off	650	3,119	5,121	15	–	8,905
As at October 31, 2012	$ 155	$ 26,716	$ 3,143	$ 10	$ 1,182	$ 31,206

	Residential	Commercial	Consumer	Agricultural	Interest	Total
As at November 1, 2010	$ 570	$ 7,083	$ 4,630	$ 23	$2,678	$ 14,984
Recoveries of previous loan write offs	49	282	731	–	–	$ 1,062
Allowance charged to net income	1,727	15,121	4,111	15	793	$ 21,767
	2,346	22,486	9,472	38	3,471	37,813
Loans written off	1,462	1,431	5,094	–	–	7,987
As at October 31, 2011	$ 884	$ 21,055	$ 4,378	$ 38	$ 3,471	$ 29,826

Collective Allowance

	Residential	Commercial	Consumer	Agricultural	Interest	Total
As at November 1, 2011	$ 535	$ 2,165	$ 3,507	$ 114	$ –	$ 6,321
Allowance charged to net income	12	(347)	(534)	(112)	439	(542)
	547	1,818	2,973	2	439	5,779
Loans written off	–	–	–	–	–	–
As at October 31, 2012	$ 547	$ 1,818	$ 2,973	$ 2	$ 439	$ 5,779

	Residential	Commercial	Consumer	Agricultural	Interest	Total
As at November 1, 2010	$ 754	$ 4,616	$ 5,096	$ 413	$ –	$ 10,879
Allowance charged to net income	(219)	(2,451)	(1,589)	(299)	–	(4,558)
	535	2,165	3,507	114	–	6,321
Loans written off	–	–	–	–	–	–
As at October 31, 2011	$ 535	$ 2,165	$ 3,507	$ 114	$ –	$ 6,321

(Canadian $ thousands, except per share amounts)

9. CREDIT QUALITY OF MEMBERS' LOANS

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

Credit Risk

	Residential	Commercial	Consumer	Agricultural	Total
Risk Categories					
1 to 5 – satisfactory risk	$ –	$ 3,101,615	$ –	$ 309,860	$ 3,411,475
6 – Watch list	–	17,288	–	470	17,758
8 – Delinquent but not impaired	–	1,191	–	–	1,191
7 and 9 – Delinquent but secured	–	25,217	–	495	25,712
Commercial Mortgages and loans not impaired	–	3,145,311	–	310,825	3,456,136
Residential mortgages and personal loans not impaired	6,120,727	–	1,055,762	–	7,176,489
Loans not impaired	6,120,727	3,145,311	1,055,762	310,825	10,632,625
Accrued interest	11,759	13,719	9,554	3,955	38,987
Loans specifically impaired	825	36,742	4,831	596	42,994
Total	$ 6,133,311	$ 3,195,772	$ 1,070,147	$ 315,376	$ 10,714,606
Loans past due, as at October 31, 2012					
Past due up to 29 days	**$ 87,738**	**$ 14,103**	**$ 15,798**	**$ 5,807**	**$ 123,446**
Past due 30 – 59 days	**31,268**	**29,102**	**4,411**	**2,321**	**67,102**
Past due 60 – 89 days	**11,039**	**5,319**	**1,681**	**384**	**18,423**
Past due over 90 days	**14,152**	**64,107**	**4,864**	**1,349**	**84,472**
	$ 144,197	**$ 112,631**	**$ 26,754**	**$ 9,861**	**$ 293,443**
Loans past due, as at October 31, 2011					
Past due up to 29 days	$ 64,300	$ 15,418	$ 18,267	$ 3,894	$ 101,879
Past due 30 – 59 days	30,717	46,567	6,314	2,790	86,388
Past due 60 – 89 days	16,755	3,242	2,407	696	23,100
Past due over 90 days	23,740	84,620	6,679	2,472	117,511
	$ 135,512	$ 149,847	$ 33,667	$ 9,852	$ 328,878
Loans past due, as at November 1, 2010					
Past due up to 29 days	$ 59,007	$ 28,299	$ 17,087	$ 4,583	$ 108,976
Past due 30 – 59 days	31,735	55,769	5,878	1,580	94,962
Past due 60 – 89 days	19,951	4,850	2,358	926	28,085
Past due over 90 days	43,551	42,641	8,384	3,922	98,498
	$ 154,244	$ 131,559	$ 33,707	$ 11,011	$ 330,521

(Canadian $ thousands, except per share amounts)

9. CREDIT QUALITY OF MEMBERS' LOANS (CONTINUED)

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.

Members' loans that are past due but not impaired are as follows:

Loans past due but not impaired as at October 31, 2012

	Residential	Commercial	Consumer	Agricultural	Total
Past due up to 29 days	**$ 87,738**	**$ 4,185**	**$ 15,798**	**$ 5,807**	**$ 113,528**
Past due 30 – 59 days	**31,268**	**28,915**	**4,411**	**2,321**	**66,915**
Past due 60 – 89 days	**11,039**	**5,319**	**1,623**	**384**	**18,365**
Past due over 90 days	**13,326**	**37,471**	**91**	**753**	**51,641**
	$ 143,371	**$ 75,890**	**$ 21,923**	**$ 9,265**	**$ 250,449**

Loans past due but not impaired as at October 31, 2011

	Residential	Commercial	Consumer	Agricultural	Total
Past due up to 29 days	$ 64,300	$ 13,638	$ 18,267	$ 3,894	$ 100,099
Past due 30 – 59 days	30,563	46,275	6,270	2,790	85,898
Past due 60 – 89 days	16,755	3,036	1,526	696	22,013
Past due over 90 days	15,282	36,232	22	723	52,259
	$ 126,900	$ 99,181	$ 26,085	$ 8,103	$ 260,269

Loans past due but not impaired as at November 1, 2010

	Residential	Commercial	Consumer	Agricultural	Total
Past due up to 29 days	$ 59,004	$ 27,604	$ 16,268	$ 4,528	$ 107,404
Past due 30 – 59 days	31,735	54,430	5,873	1,580	93,618
Past due 60 – 89 days	19,836	4,392	1,969	926	27,123
Past due over 90 days	40,113	21,834	2,737	2,875	67,559
	$ 150,688	$ 108,260	$ 26,847	$ 9,909	$ 295,704

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 cash, negotiable securities and investments. Guarantees are also taken to reduce credit risk exposure risk.

(Canadian $ thousands, except per share amounts)

9. CREDIT QUALITY OF MEMBERS' LOANS (CONTINUED)

	As at October 31 2012	As at October 31 2011	As at November 1 2010
Loans by security:			
Secured by mortgage	**$ 7,677,744**	$ 6,512,583	$ 6,228,328
Secured by other	**2,112,913**	2,288,138	2,089,507
Unsecured	**923,949**	1,188,972	1,070,074
Total	**$ 10,714,606**	$ 9,989,693	$ 9,387,909

10. ASSETS HELD FOR SALE

	As at October 31 2012	As at October 31 2011	As at November 1 2010
Foreclosed property	**$ 11,218**	$ 16,136	$ 9,993
Other land and buildings	**3,368**	3,155	9,352
Total	**$ 14,586**	$ 19,291	$ 19,345

11. OTHER ASSETS

	As at October 31 2012	As at October 31 2011	As at November 1 2010
Retained rights to future excess spread	**$ 978**	$ 2,156	$ 4,601
Accounts receivable	**6,493**	5,008	4,782
Prepaid items	**4,480**	3,288	3,487
Dividend receivable	–	1,305	1,350
Total	**$ 11,951**	$ 11,757	$ 14,220

(Canadian $ thousands, except per share amounts)

12. PROPERTY AND EQUIPMENT

	Land	Buildings	Leasehold improve-ment	Furniture, office equipment and vehicles	Computer equipment	Leased equipment	Airplane	Total
Cost								
Balance at November 1, 2010	$ 29,881	$ 138,780	$ 40,208	$ 49,675	$ 25,291	$ 1,269	$ –	$ 285,104
Additions	70	5,823	2,620	3,028	2,335	–	–	13,876
Disposals	–	(1,431)	(4,055)	(17,788)	(9,846)	–	–	(33,120)
Impairment	(1,037)	–	–	–	–	–	–	(1, 037)
Transfer to/from investment property	(115)	(6,503)	–	–	–	–	–	(6,618)
Transfer to/from assets held for sale	625	6,466	–	–	–	–	–	7,091
Other transfers	–	9,665	(8,639)	(929)	199	–	975	1,271
Balance at October 31, 2011	$ 29,424	$ 152,800	$ 30,134	$ 33,986	$ 17,979	$ 1,269	$ 975	$ 266,567
Additions	3,125	1,845	5,412	3,494	2,702	–	–	16,578
Disposals	(3,908)	(1,847)	(245)	(2,001)	(2,775)	–	–	(10,776)
Transfer to/from assets held for sale	(3,317)	(2,164)	(136)	–	–	–	–	(5,617)
Other transfers	–	–	982	74	(30)	–	–	1,026
Balance at October 31, 2012	**$ 25,324**	**$ 150,634**	**$ 36,147**	**$ 35,553**	**$ 17,876**	**$ 1,269**	**$ 975**	**$ 267,778**
Accumulated depreciation								
Balance at November 1, 2010	$ –	$ 25,243	$ 16,854	$ 30,909	$ 17,988	$ 656	$ –	$ 91,650
Depreciation	–	5,083	3,212	3,918	2,500	253	129	15,095
Disposals	–	(242)	(4,052)	(17,591)	(9,842)	–	–	(31,727)
Transfer to/from investment property	–	(1,238)	–	–	–	–	–	(1,238)
Transfer to/from assets held for sale	461	3,107	–	–	–	–	–	3,568
Other transfers	–	1,265	(1,265)	(74)	4	–	67	(3)
Balance at October 31, 2011	$ 461	$ 33,218	$ 14,749	$ 17,162	$ 10,650	$ 909	$ 196	$ 77,345
Depreciation	–	4,971	2,909	3,905	2,528	254	129	14,696
Transfer to/from assets held for sale	–	(620)	–	–	–	–	–	(620)
Other transfers	–	–	–	37	(30)	–	–	7
Disposals	–	(692)	(160)	(1,946)	(2,750)	–	–	(5,548)
Balance at October 31, 2012	**$ 461**	**$ 36,877**	**$ 17,498**	**$ 19,158**	**$ 10,398**	**$ 1,163**	**$ 325**	**$ 85,880**
Net Book Value								
At November 1, 2010	$ 29,881	$ 113,537	$ 23,354	$ 18,766	$ 7,303	$ 613	$ –	$ 193,454
At October 31, 2011	28,963	119,582	15,385	16,824	7,329	360	779	189,222
At October 31, 2012	**24,863**	**113,757**	**18,649**	**16,395**	**7,478**	**106**	**650**	**181,898**

(Canadian $ thousands, except per share amounts)

13. INVESTMENT PROPERTY

	Land	Buildings	Total
Cost			
Balance at November 1, 2010	$ 1,661	$ 6,551	$ 8,212
Transfer to/from property and equipment	115	6,503	6,618
Balance at October 31, 2011	$ 1,776	$ 13,054	$ 14,830
Balance at October 31, 2012	**$ 1,776**	**$ 13,054**	**$ 14,830**
Accumulated depreciation and impairment			
Balance at November 1, 2010	$ –	$ 2,746	$ 2,746
Impairment losses (reversals)	–	77	77
Depreciation	–	42	42
Transfer to/from property and equipment	–	1,238	1,238
Balance at October 31, 2011	$ –	$ 4,103	$ 4,103
Depreciation	–	322	322
Balance at October 31, 2012	**$ –**	**$ 4,425**	**$ 4,425**
Net Book Value			
At November 1, 2010	$ 1,661	$ 3,805	$ 5,466
At October 31, 2011	1,776	8,951	10,727
At October 31, 2012	**1,776**	**8,629**	**10,405**

The fair value of investment property held at October 31, 2012 was $15,262 (October 31, 2011 $15,262). The fair value of investment property is determined by external valuation on a rotating basis every 3 years.

Income Related To Rental Properties

	2012	2011
Rental income	**$ 1,403**	$ 1,040
Direct operating expense		
From property generating rental income	**656**	661
Total	**$ 747**	$ 379

Rental payments receivable are as follows:

	October 31 2012	October 31 2011	November 1 2010
Less than 1 year	**$ 1,415**	$ 1,244	$ 1,260
Between 1 and 5 years	**2,851**	2,664	2,564
More than 5 years	**1,114**	855	408
Total	**$ 5,380**	$ 4,763	$ 4,232

(Canadian $ thousands, except per share amounts)

14. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

	As at October 31 2012	As at October 31 2011	As at November 1 2010
Derivative financial assets			
Interest rate swaps and cap options	$ –	$ –	$ 202
Equity-linked options	7,359	6,979	8,963
Embedded purchase option	14,948	14,015	9,850
Total	$ 22,307	$ 20,994	$ 19,015
Derivative financial liabilities			
Embedded derivatives	$ 7,732	$ 6,551	$ 8,657
Interest rate swaps and cap options	–	15	73
Total	$ 7,732	$ 6,566	$ 8,730

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 2012	As at October 31 2011	As at November 1 2010
Interest rate swaps						
Receive floating, pay fixed	$ 421	$ –	$ 10,525	$ 10,946	$ 24,164	$ 78,996
Receive fixed, pay floating	–	–	–	–	–	30,000
Interest rate cap options	–	50,000	–	50,000	150,000	185,000
Equity-linked options	–	16,706	69,735	86,441	70,749	55,531
	$ 421	$ 66,706	$ 80,260	$ 147,387	$ 244,913	$ 349,527

The Credit Union enters into derivative transactions for risk management purposes.

Interest Rate Swaps and Interest Rate Cap Options

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

Equity-Linked Options

Equity-linked options are used to fix costs on term deposit products which pay a return to the deposit holder based on the change in equity market indexes. The embedded derivative in the term deposit product as well as the option derivatives is marked to market through Interest income investments. The fair value of the equity linked derivative contract is separately presented as part of derivative instrument assets.

Embedded purchase option

The Credit Union entered into an arrangement with a third party in which it acts as an agent to offer credit cards to its members. The agreement lasts for three years and renews automatically unless either party provides notice to terminate. The agreement contains an option for the Credit Union to acquire the underlying consumer loans associated with the credit cards. The exercise price is linked to the book value of the loans and notice of intent to exercise the option must be provided one year prior to the termination of the agreement. The current agreement was extended in October 2012 and again in December 2012, and is due to renew in September 2015. The extension in December 2012 did not significantly impact the value of the option.

(Canadian $ thousands, except per share amounts)

15. INVESTMENTS IN ASSOCIATES

	As at October 31 2012	As at October 31 2011	As at November 1 2010
Alberta Central	**$ 150,103**	$ 131,139	$ 120,963
Crelogix	**594**	840	1,638
Total	**$ 150,697**	$ 131,979	$ 122,601

	As at October 31 2012	As at October 31 2011	As at November 1 2010
Alberta Central	**56.4%**	55.5%	54.7%
Crelogix	**35.9%**	35.9%	35.9%

Financial Information for Associates

	As at October 31 2012	As at October 31 2011	As at November 1 2010
Alberta Central			
Assets	**$ 2,722,441**	$ 2,178,960	$ 2,341,421
Liabilities	**2,449,264**	1,937,655	2,115,707
Revenues	**29,366**	31,936	20,943
Net income	**28,263**	11,162	9,464
Crelogix			
Assets	**$ 11,690**	$ 11,805	$ 9,933
Liabilities	**12,860**	12,819	8,207
Revenues	**6,744**	6,593	5,740
Net income (loss)	**(156)**	16	978

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

Due to the governance structure of Alberta Central, management has determined that the Credit Union has significant influence, but not control, over Alberta Central. The end of the reporting period of the financial statements of Alberta Central is December 31. Adjustments have been made based on information supplied by Alberta Central to align these financial statements for transactions that have occurred between the date of these financial statements and the reporting date.

During 2012, the Credit Union bought $4,500 in Alberta Central shares (2011 – $5,074) and received a dividend of $2,115 (2011 – $1,305).

Included in investment income for 2012 is net loss of $(245) (2011 net income of $213) from Crelogix's investment and net income of $16,579 (2011 – $5,908) from Alberta Central. In 2011 the Credit Union sold $1,011 in Crelogix shares and recorded a loss on sale of shares of $21 which is recorded in other income.

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

(Canadian $ thousands, except per share amounts)

16. INTANGIBLE ASSETS

	Purchased Software	Internally Developed Software	Computer Software under Development	Total
Cost				
Balance at November 1, 2010	$ 12,830	$ 13,532	$ 8,901	$ 35,263
Additions	51	19	12,099	12,169
Disposals	(740)	(4,161)	–	(4,901)
Impairment	–	–	(10,281)	(10,281)
Transfers	(9,882)	11,948	(2,300)	(234)
Balance at October 31, 2011	$ 2,259	$ 21,338	$ 8,419	$ 32,016
Additions	39	440	16,334	16,813
Disposals	(122)	(14,744)	–	(14,866)
Impairment	–	–	(1,119)	(1,119)
Transfers	–	3,755	(3,675)	80
Balance at October 31, 2012	**$ 2,176**	**$ 10,789**	**$ 19,959**	**$ 32,924**
Accumulated depreciation and impairment				
Balance at November 1, 2010	$ 10,976	$ 12,677	$ –	$ 23,653
Amortization	100	1,948	–	2,048
Disposals	(740)	(4,161)	–	(4,901)
Impairment	–	–	–	–
Transfers	(8,364)	8,367	–	3
Balance at October 31, 2011	$ 1,972	$ 18,831	$ –	$ 20,803
Amortization	52	1,358	–	1,410
Disposals	(122)	(14,744)	–	(14,866)
Impairment	–	–	–	–
Balance at October 31, 2012	**$ 1,902**	**$ 5,445**	**$ –**	**$ 7,347**
Net Book Value				
At November 1, 2010	$ 1,854	$ 855	$ 8,901	$ 11,610
At October 31, 2011	287	2,507	8,419	11,213
At October 31, 2012	**274**	**5,344**	**19,959**	**25,577**

The Credit Union is in the process of developing a single banking system platform. In 2011, management concluded that the development effort required and risks associated with the implementation of the proposed banking system platform software could not be resolved on a cost effective and timely basis. In order to expedite the convergence of all operations to a single banking platform, the Board of Directors approved an alternative software solution.

A write down was recorded by the Credit Union for the costs directly associated with the original software. The resulting losses were $1,119 for the year ended October 31, 2012 (2011 – $10,281) and were recorded on the consolidated statement of income and comprehensive income.

(Canadian $ thousands, except per share amounts)

17. INCOME TAXES

a) Income tax expense

The significant components of tax expense included net income are:

		2012		2011
Current tax expense				
Based on current year taxable income	**$**	**15,048**	$	12,641
Adjustments for (over)/under provision in prior periods		**–**		–
		15,048		12,641
Deferred tax expense				
Origination and reversal of temporary differences		**3,184**		(423)
Recognition of previously unrecognized tax losses		**–**		–
Change in unrecognized deferred tax assets		**–**		–
Reduction in tax rate		**–**		–
		3,184		(423)
Total Income Taxes	**$**	**18,232**	$	12,218

b) Reconciliation of effective tax rate:

	2012	2011
Income taxes calculated at the statutory rate	**38.00%**	38.00%
Income taxes adjusted for the effect of:		
Reduction for credit unions	**-17.00%**	-17.00%
Tax recovery from patronage dividends	**-4.91%**	-6.33%
Non-deductible expenses and other	**0.81%**	1.28%
Effective tax rate:	**16.90%**	15.95%

(Canadian $ thousands, except per share amounts)

17. INCOME TAXES (CONTINUED)

c) Deferred tax assets and liabilities

The movement in deferred tax assets and liabilities are:

	As at October 31 2011	Recognized in net income	Recognized in OCI	**As at October 31 2012**
Deferred tax:				
Subsidiary Property and equipment	$ (40)	$ (10)	$ –	**$ (50)**
Subsidiary Non-capital losses	118	(8)	–	**110**
Total Subsidiary Deferred tax asset	78	(18)	–	**60**
Deferred tax:				
Member loans	686	56	–	**742**
Property and equipment	455	(2,704)	–	**(2,249)**
Derivative instruments	(2,951)	(193)	–	**(3,144)**
Investment in associate	(4,976)	(2,943)	–	**(7,919)**
Employee benefits	1,203	605	(109)	**1,699**
Other payables	(669)	2,013	–	**1,344**
Non-capital losses	3	–	–	**3**
Total Servus Deferred tax liability	(6,249)	(3,166)	(109)	**(9,524)**
Total Consolidated Deferred tax	$ (6,171)	$ (3,184)	$ (109)	**$ (9,464)**

	As at November 1 2010	Recognized in net income	Recognized in OCI	As at October 31 2011
Deferred tax:				
Subsidiary Property and equipment	$ (19)	$ (21)	$ –	$ (40)
Subsidiary Non-capital losses	42	76	–	118
Total Subsidiary Deferred tax asset	23	55	–	78
Deferred tax:				
Member loans	1,131	(445)	–	686
Property and equipment	(2,944)	3,399	–	455
Derivative instruments	(2,068)	(883)	–	(2,951)
Investment in associate	(3,934)	(1,042)	–	(4,976)
Employee benefits	1,182	41	(20)	1,203
Other payables	33	(702)	–	(669)
Non-capital losses	3	–	–	3
Total Servus Deferred tax liability	(6,597)	368	(20)	(6,249)
Net Consolidated Deferred tax	$ (6,574)	$ 423	$ (20)	$ (6,171)

(Canadian $ thousands, except per share amounts)

18. MEMBERS' DEPOSITS

	As at October 31 2012	As at October 31 2011	As at November 1 2010
Demand accounts	**$ 5,734,815**	$ 4,974,705	$ 4,431,594
Term deposits	**3,525,120**	3,506,432	3,763,576
Registered plans	**1,728,942**	1,654,535	1,556,194
Other deposits	**8,010**	7,666	7,959
	10,996,887	10,143,338	9,759,323
Accrued interest	**50,142**	54,235	60,046
Total	**$ 11,047,029**	$ 10,197,573	$ 9,819,369

19. BORROWINGS

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.

As at October 31, 2012, the Credit Union had no outstanding balance and no accrued interest owing to Alberta Central on outstanding term loans and lines of credit (2011 – $4).

Caisse Centrale Desjardins

The Credit Union also has a credit facility with Caisse Central Desjardins ("CCD"). The facility is a 364 revolving credit facility 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.

At October 31, 2012, the Credit Union had nil (2011 – nil) in outstanding loans payable and lines of credit.

(Canadian $ thousands, except per share amounts)

20. TRADE PAYABLES AND OTHER LIABILITIES

	As at October 31 2012	As at October 31 2011	As at November 1 2010
Cheques and other items in transit	$ **41,554**	$ 61,278	$ 35,260
Accounts payable	**60,376**	39,886	45,169
Dividend and patronage to members	**27,150**	25,739	24,332
Deferred income	**2,665**	3,640	3,514
Mortgage securitization liabilities	**18**	2,756	4,402
Obligations under finance lease	**115**	385	644
Premium and servicing liability	**262**	367	588
Total	$ **132,140**	$ 134,051	$ 113,909

21. PROVISIONS

As at October 31, 2012	**Legal and contractual claims**	**Onerous contracts**	**Total**
Balance, beginning of year	$ **2,200**	$ **3,333**	$ **5,533**
Incurred	**300**	**–**	**300**
Settled	**–**	**–**	**–**
Reversed	**(250)**	**(3,333)**	**(3,583)**
Balance, end of year	$ **2,250**	$ **–**	$ **2,250**

As at October 31, 2011	Legal and contractual claims	Onerous contracts	Total
Balance, beginning of year	$ 1,500	$ –	$ 1,500
Incurred	700	3,333	4,033
Settled	–	–	–
Reversed	–	–	–
Balance, end of year	$ 2,200	$ 3,333	$ 5,533

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

At October 31, 2011, the Credit Union had contracts which required payments through 2015. The Credit Union determined that the obligations under the contract exceeded the benefit expected to be received and recognized the present value of future payments as an onerous contract. During 2012, the Credit Union entered into negotiations to amend the terms of the contracts. As a result of these negotiations, an agreement has been reached which releases the Credit Union from any current obligations under the original contracts and so the provision has been reversed.

(Canadian $ thousands, except per share amounts)

22. EMPLOYEE BENEFITS

		2012		2011
Short-term employee benefits	**$**	**159,721**	$	147,247
Post-employment benefits		**8,185**		7,177
Termination benefits		**107**		345
Total	**$**	**168,013**	$	154,769

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.

		Pension Plans		**Other Benefit Plans**		**2012**		2011
Net benefit plan cost								
Current service cost	**$**	**151**	**$**	**44**	**$**	**195**	$	187
Interest cost		**186**		**63**		**249**		251
Past service costs		**–**		**–**		**–**		–
Total net benefit plan cost in net income		**337**		**107**		**444**		438
Defined contribution registered retirement savings plan – Credit Union contributions		**8,073**		**–**		**8,073**		7,220
Total cost recognized in net income		**8,410**		**107**		**8,517**		7,658
Actuarial (gains)/losses recognized in other comprehensive income		**263**		**166**		**429**		(91)
Total plan cost	**$**	**8,673**	**$**	**273**	**$**	**8,946**	$	7,567

		Pension Plans		**Other Benefit Plans**		**As at October 31 2012**		As at October 31 2011
Unfunded accrued benefit obligation								
Balance, beginning of year	**$**	**4,260**	**$**	**2,860**	**$**	**7,120**	$	7,265
Current service cost		**151**		**44**		**195**		187
Interest cost		**186**		**63**		**249**		251
Benefits paid		**(400)**		**(114)**		**(514)**		(492)
Actuarial loss (gain)		**404**		**116**		**520**		(91)
Accrued benefit obligation and liability recognized, end of year	**$**	**4,601**	**$**	**2,969**	**$**	**7,570**	$	7,120

(Canadian $ thousands, except per share amounts)

22. EMPLOYEE BENEFITS (CONTINUED)

	Pension Plans	Other Benefit Plans	2012	2011
Current service cost	$ 151	$ 44	$ 195	$ 187
Interest cost	186	63	249	251
Benefits paid	(400)	(114)	(514)	(492)
Actuarial loss (gain)	404	116	520	(91)
Total included in personnel expense	$ 341	$ 109	$ 450	$ (145)

	Pension Plans		Other Benefit Plans	
	2012	2011	2012	2011
Discount rate	2.2%	2.2%	3.24% to 7.0%	3.24% to 7.0%
Rate of compensation increase	4.0%	4.0%	4.0%	4.0%

Changes in the assumed health care cost trend rates for the post-retirement benefit plans for the period ending October 31, 2012 are:

	1% increase	1% decrease
Effect on:		
Net benefit cost	$ 1	$ (1)
Accrued benefit obligation	52	(50)

Experience adjustments

	2012	2011	2010
Accrued benefit obligation and plan deficit	$ 7,570	$ 7,120	$ 7,265
Experience gains / (losses)	520	91	(373)
Defined benefit contributions expected to be paid in 2013			$ 430

23. SHARE CAPITAL

Common Shares

Common shares have the following characteristics:

a) Authorized for issue in unlimited number;

b) A par value of $1, but issuable as fractional shares;

c) Transferable in restricted circumstances;

d) Non-assessable;

e) Redeemable at par value, subject to the Credit Union's redemption policy which includes approval of the Board of Directors and restrictions contained in the Credit Union 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.

(Canadian $ thousands, except per share amounts)

23. SHARE CAPTIAL (CONTINUED)

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.

	Issued and outstanding as at October 31 2011	Issued and redeemed	Dividends declared	**Issued and outstanding as at October 31 2012**
Common shares total	$ 358,079	$ 20,625	$ 14,323	**$ 393,027**
Investment shares				
Series A	46,619	(776)	2,324	**48,167**
Series B	7,405	(181)	–	**7,224**
Series C	19,282	(395)	959	**19,846**
Series D	27,891	(479)	1,391	**28,803**
Series E	4,228	(59)	–	**4,169**
Series F	550	(3)	27	**574**
Series G	373	(3)	19	**389**
Investment shares total	106,348	(1,896)	4,720	**109,172**
Share capital total	$ 464,427	$ 18,729	$ 19,043	**$ 502,199**

	Issued and outstanding as at November 1 2010	Issued and redeemed	Dividends declared	Issued and outstanding as at October 31 2011
Common shares total	$ 334,745	$ 9,422	$ 13,912	$ 358,079
Investment shares				
Series A	45,632	(1,338)	2,325	46,619
Series B	7,703	(298)	–	7,405
Series C	18,795	(471)	958	19,282
Series D	27,331	(825)	1,385	27,891
Series E	4,360	(132)	–	4,228
Series F	552	(29)	27	550
Series G	364	(10)	19	373
Investment shares total	104,737	(3,103)	4,714	106,348
Share capital total	$ 439,482	$ 6,319	$ 18,626	$ 464,427

(Canadian $ thousands, except per share amounts)

23. SHARE CAPTIAL (CONTINUED)

2012		Common Shares Equity Portion		Investment Shares Equity Portion		Total Equity		Investment Shares Liability Portion
As at November 1, 2011	$	**358,079**	$	**106,348**	$	**464,427**	$	**471**
Issued and redeemed, net		**20,625**		**(1,896)**		**18,729**		–
Transfers in (out)		–		–		–		–
Dividend declared		**14,323**		**4,720**		**19,043**		–
As at October 31, 2012	$	**393,027**	$	**109,172**	$	**502,199**	$	**471**
2011								
As at November 1, 2010	$	334,745	$	104,737	$	439,482	$	485
Issued and redeemed, net		9,422		(3,119)		6,303		–
Dividend declared		13,912		4,714		18,626		–
Transfers In (Out)		–		16		16		(14)
As at October 31, 2011	$	358,079	$	106,348	$	464,427	$	471

		2012		2011
Total patronage and dividends paid in cash or shares				
Patronage to members in cash	$	**26,488**	$	25,121
Common share dividend		**14,323**		13,912
Investment share dividend		**4,720**		4,714
Investment share dividend in cash – equity portion		**592**		595
Investment share dividend in cash – liability portion		–		23
	$	**46,123**	$	44,365

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, C, D, F and G investment share dividends are paid in additional Series A, C, D, F and G investment shares. Series B and E investment share dividends were paid in cash and are recorded in Trade payables and other liabilities in the consolidated statement of financial position.

Dividend per share (%)	**2012 (%)**	**2011 (%)**
Common share	**4.00%**	4.25%
Investment share	**5.00%**	5.25%

(Canadian $ thousands, except per share amounts)

24. INVESTMENT INCOME

		2012		2011
Investment income on non-member loans and receivables	$	**8,697**	$	12,672
Investment income on derivative instruments		**–**		118
Unrealized loss on derivative instruments		**(794)**		(278)
Realized (loss) gain on derivative instruments		**(5)**		242
Loss on sale of non-member loans and receivables		**–**		(21)
Total	$	**7,898**	$	12,733

25. OTHER INTEREST EXPENSE

		2012		2011
Interest expense on Alberta Central term loans	$	**194**	$	335
Interest expense on line of credit		**363**		–
Total	$	**557**	$	335

26. OTHER INCOME

		2012		2011
Commissions and fees	$	**39,509**	$	37,542
Account service charges		**26,345**		25,979
Foreign exchange income		**4,217**		4,662
Operating lease income		**1,439**		1,387
Other		**3,128**		1,838
Total	$	**74,638**	$	71,408

27. CAPITAL MANAGEMENT

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

Objectives, Policy and Processes

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

- sufficient capital to remain viable through periods of economic weakness and to maintain the security of Member deposits,
- clear direction on the desired composition of the Credit Union's capital, and
- a capital plan that can be used to inform 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.

27. CAPITAL MANAGEMENT (CONTINUED)

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. Management has also developed an Internal Capital Adequacy Assessment Process (ICAAP) which takes a long term perspective of capital requirements using various scenarios.

Should the Credit Union not comply with its legislated capital adequacy requirements, the CEO and CFO would immediately notify the Board Chair, the Audit and Finance Committee Chair, and the Corporation. The Board of Directors could 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 and provided for in the Act.

Regulatory Capital

Capital requirements are established and regulated by the Corporation using a risk weighted approach. Total Capital consists of both primary and secondary capital. The Credit Union is required under the Act to hold capital equal to or exceeding the greater of 4.0 percent of total assets and 8.0 percent of risk weighted assets.

Primary capital consists of retained earnings, common shares, and investment shares (including the portion classified as liabilities), and the Credit Union's portion of qualifying retained earnings of Alberta Central as calculated and provided by Alberta Central. It is offset by goodwill and intangible assets, investments in subsidiaries, and deferred income tax asset.

Secondary capital consists of deferred income tax payable 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.

At all times the Credit Union will comply with regulatory requirements establishing required capital balances.

(Canadian $ thousands, except per share amounts)

27. CAPITAL MANAGEMENT (CONTINUED)

As at October 31, 2012 and 2011, the Credit Union's capital ratio was greater than the minimum requirement. The following components of regulatory capital were reported:

	2012	2011	CGAAP 2010
Primary Capital:			
Adjusted retained earnings[1]	**$ 420,970**	$ 389,860	$ 392,229
Common shares	**393,027**	358,079	334,745
Investment shares	**109,172**	106,348	105,222
Qualifying retained earnings with Alberta Central[2]		22,406	7,022
Total primary capital	**923,169**	878,093	839,218
Secondary Capital:			
Collective allowance for credit losses	**5,340**	6,321	10,879
Deferred tax liability[3]	**9,524**	6,249	1,536
Total secondary capital	**14,864**	12,570	12,415
Less Deductions:			
Intangibles	**(25,577)**	(11,213)	(210)
Deferred income tax asset[3]	**(60)**	(78)	(249)
Total Capital Available	**$ 912,396**	$ 877,972	$ 851,174
Total capital as % of risk weighted assets	**13.32%**	14.48%	14.49%
Total capital as % of assets	**7.49%**	7.78%	7.81%

1) Net of derivative assets and net share of associates assets.
2) Not eligible as capital effective October 31, 2012.
3) 2011 amounts adjusted for IFRS transition adjustments.

Regulatory capital for the year ended October 31, 2010 was reported using CGAAP and has not been restated under IFRS due to the regulatory requirements that were in place at the time. The main adjustments that would make these amounts compliant with IFRS include impacts to retained earnings and to deferred taxes as a result of transition adjustments.

(Canadian $ thousands, except per share amounts)

28. GUARANTEES, COMMITMENTS AND CONTINGENT LIABILITIES

Guarantees

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

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

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

(iii) Another entity's failure to perform under an obligation agreement; 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 but are not required to be recorded in the financial statements are presented below.

Standby Letters of Credit and Letters of Guarantee

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

	As at October 31 2012	As at October 31 2011	As at November 1 2010
Standby letters of credit	**$ 85,873**	$ 72,645	$ 61,899

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)

28. GUARANTEES, COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

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

	As at October 31 2012	As at October 31 2011	As at November 1 2010
Commitments to extend credit			
Original term to maturity of one year or less	$ **2,146,895**	$ 1,622,191	$ 1,397,858
Original term to maturity of more than one year	**313,994**	582,177	606,673
Total commitment to extend credit	$ **2,460,889**	$ 2,204,368	$ 2,004,531

Property and equipment and intangible assets expenditure commitments	**As at October 31 2012**	As at October 31 2011	As at November 1 2010
Total contract to date	$ **1,742**	$ 3,474	$ 3,207
Cost to date	**957**	1,335	1,770
Total contractual obligation	$ **785**	$ 2,139	$ 1,437

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	$ **7,544**	$ **1,612**	$ **9,156**
Between 1 and 5 years	**27,775**	**486**	**28,261**
After 5 years	**14,928**	**–**	**14,928**
	$ **50,247**	$ **2,098**	$ **52,345**

*excludes expenditures on banking system

Commitment to expenditures on banking system	**October 31 2012**	October 31 2011
Within 1 year	$ **7,437**	$ 833
Between 1 and 5 years	**2,046**	3,333
After 5 years	**117**	7,500
	$ **9,600**	$ 11,666

(Canadian $ thousands, except per share amounts)

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	2012			2011		
	Book Value	**Fair Value**	**Fair value difference**	Book Value	Fair Value	Fair value difference
Financial Instrument Assets						
Cash and cash equivalents (a)	**$ 177,021**	**$ 176,832**	**$ (189)**	$ 118,667	$ 118,667	$ –
Interest bearing deposits with financial institutions	**911,257**	**911,257**	–	765,915	765,915	–
Assets at amortized cost	**2,044**	**2,044**	–	4,115	4,115	–
Assets at fair value through profit or loss	**23,306**	**23,306**	–	23,253	23,253	–
Members' loans (b,c)	**10,677,621**	**10,788,363**	**110,742**	9,957,017	10,094,704	137,687
Other (a,d)	**6,493**	**6,493**	–	4,505	4,505	–
	11,797,742	**11,908,295**	**110,553**	10,873,472	11,011,159	137,687
Liabilities						
Members' deposits (b,c)	**11,047,029**	**11,081,876**	**34,847**	10,197,573	10,241,719	44,146
Trade payables and other liabilities (a,d)	**150,601**	**150,601**	–	153,611	153,611	–
	$11,197,630	**$11,232,477**	**$ 34,847**	$10,351,184	$10,395,330	$ 44,146

	2010		
	Book Value	Fair Value	Fair value difference
Financial Instrument Assets			
Cash and cash equivalents (a)	$ 144,231	$ 144,231	$ –
Interest bearing deposits with financial institutions	880,428	880,503	75
Assets at amortized cost	10,219	10,219	–
Assets at fair value through profit or loss	19,015	19,015	–
Members' loans (b,c)	9,364,724	9,541,366	176,642
Other (a,d)	10,731	10,731	–
	10,429,348	10,606,065	176,717
Liabilities			
Members' deposits (b,c)	9,831,908	9,893,273	61,365
Trade payables and other liabilities (a,d)	119,285	119,285	–
	$ 9,951,193	$ 10,012,558	$ 61,365

29. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The estimated fair value approximates amounts at which instruments could be exchanged in a current transaction between willing parties who are under no compulsion to act. However, many of the Credit Union's financial instruments lack an available trading market and are intended to be held to maturity. Therefore, fair values are based on estimates using present value and other valuation techniques, which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates which reflect varying degrees of risk. Because of the estimation process and the need to use judgement, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

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

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

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

(c) The estimated fair value of fixed rate Member loans and fixed rate Member deposits is determined by discounting the expected future cash flows of these loans and deposits based on yield curves for 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.

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:

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

The level in the fair value hierarchy within which the financial asset or liability is categorized is determined on the basis of 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.

(Canadian $ thousands, except per share amounts)

29. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

As at October 31, 2012	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative assets	–	**22,307**	–	**22,307**
Retained right to future excess spread	–	–	**978**	**978**
Financial assets held at fair value	$ –	$ **22,307**	$ **978**	$ **23,285**
Derivative liabilities	–	–	–	–
Member shares	–	**(471)**	–	**(471)**
Embedded derivates	–	**(7,732)**	–	**(7,732)**
Financial liabilities held at fair value	$ –	$ **(8,203)**	$ –	$ **(8,203)**

As at October 31, 2011	Level 1	Level 2	Level 3	Total
Derivative assets	–	20,994	–	20,994
Retained right to future excess spread	–	–	2,156	2,156
Financial assets held at fair value	$ –	$ 20,994	$ 2,156	$ 23,150
Derivative liabilities	–	(15)	–	(15)
Member shares	–	(471)	–	(471)
Embedded derivates	–	(6,551)	–	(6,551)
Financial liabilities held at fair value	$ –	$ (7,037)	$ –	$ (7,037)

As at November 1, 2010	Level 1	Level 2	Level 3	Total
Derivative assets	–	19,015	–	19,015
Retained right to future excess spread	–	–	4,601	4,601
Financial assets held at fair value	$ –	$ 19,015	$ 4,601	$ 23,616
Derivative liabilities	–	(73)	–	(73)
Member shares	–	(485)	–	(485)
Embedded derivates	–	(8,657)	–	(8,657)
Financial liabilities held at fair value	$ –	$ (9,215)	$ –	$ (9,215)

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

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

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

30. FINANCIAL RISK MANAGEMENT

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

Credit risk

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

Risk Measurement

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

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

Credit Quality Performance

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

Objectives, Policies and Processes

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

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

(Canadian $ thousands, except per share amounts)

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risk

Market risk arises from changes in interest rates that affect the Credit Union's net interest income. Exposure to this risk directly impacts the Credit Union's net interest income from its 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 member-owner needs.

Risk Measurement

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

Objectives, Policies and Processes

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

Since October 31, 2011, 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.

	2012	2011
Before tax impact of:		
1% increase in rates	**$ 3,339**	$ 3,887
1% decrease in rates	**(15,501)**	(17,008)

Liquidity risk

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

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

Risk Measurement

The assessment of the Credit Union's liquidity position reflects management's estimates, assumptions and judgement 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 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 2012, the Credit Union's liquidity as at October 31, 2012 exceeds the minimum requirement.

Key features of liquidity management include:

- Daily monitoring of expected cash inflows and outflows, as well as tracking and forecasting the liquidity position, including the cash flows from derivative financial, on at least a two-month rolling basis; and
- Consideration of the term structure of loans and deposits, with emphasis on deposit maturities, as well as expected loan funding and other commitments to ensure the Credit Union can maintain required levels of liquidity while meetings its obligations.

(Canadian $ thousands, except per share amounts)

31. INTEREST RATE SENSITIVITY

As at October 31, 2012	Floating Rate	0–3 months	3–6 months	6–12 months	More Than 1 Year	Non Interest Sensitive	Total
Assets							
Cash	$ 150,180	$ –	$ –	$ –	$ –	$ 26,652	$ 176,832
Effective yield (%)	*0.25%*	–	–	–	–	–	*0.21%*
Investments in associates	–	–	–	–	–	150,697	150,697
Investments	–	737,022	143,962	30,258	2,081	–	913,323
Effective yield (%)	–	*1.01%*	*1.12%*	*0.35%*	*5.82%*	–	*2.08%*
Member loans	4,402,601	670,310	377,625	722,447	4,504,147	491	10,677,621
Effective yield (%)	*3.86%*	*4.64%*	*4.78%*	*4.70%*	*4.58%*	–	4.51%
Other assets	–	–	–	–	–	266,784	266,802
	4,552,781	1,407,332	521,587	752,705	4,506,228	444,624	12,185,257
Liabilities and Equity							
Member deposits	4,535,779	1,197,778	769,103	1,223,381	2,308,047	1,012,941	11,047,029
Effective yield (%)	0.84%	1.18%	1.30%	1.22%	1.45%	–	1.20%
Other liabilities	–	–	–	–	–	161,609	161,609
Borrowings	–	–	–	–	–	–	–
Effective yield (%)	–	–	–	–	–	–	–
Equity	–	–	–	–	–	976,619	976,619
	4,535,779	1,197,778	769,103	1,223,381	2,308,047	2,151,169	12,185,257
Off Statement of Financial Position							
Notional value of assets derivative financial instruments	10,946	–	50,000	–	–	–	60,946
Notional value of liabilities derivative financial instruments	–	(421)	(50,000)	–	(10,525)	–	(60,946)
Sub-total off Statement of Financial Position	10,946	(421)	–	–	(10,525)	–	–
Net 2012 Position	$ 27,948	$ 209,133	$ (247,516)	$ (470,676)	$ 2,187,656	$ (1,706,545)	$ –

(Canadian $ thousands, except per share amounts)

31. INTEREST RATE SENSITIVITY (CONTINUED)

As at October 31, 2011	Floating Rate	0–3 months	3–6 months	6–12 months	More Than 1 Year	Non Interest Sensitive	Total
Assets							
Cash	$ 91,541	$ –	$ –	$ –	$ –	$ 27,126	$ 118,667
Investments in associates	–	–	–	–	–	131,979	131,979
Investments	1,869	764,885	–	–	1,250	2,026	770,030
Effective yield (%)	*2.20%*	*1.07%*	–	–	*5.82%*	–	*3.03%*
Member loans	4,396,160	1,713,708	–	–	3,847,149	–	9,957,017
Effective yield (%)	*3.93%*	*5.25%*	–	–	*5.12%*	–	*4.77%*
Other assets	–	–	–	–	–	271,929	271,929
	4,489,570	2,478,593	–	–	3,848,399	433,060	11,249,622
Liabilities and Equity							
Member deposits	4,059,340	3,020,467	–	–	2,265,523	852,243	10,197,573
Effective yield (%)	*1.10%*	*2.21%*	–	–	*2.03%*	–	*1.78%*
Other liabilities	–	–	–	–	–	160,436	160,436
Borrowings	4	–	–	–	–	–	4
Effective yield (%)	*2.05%*	–	–	–	–	–	*2.05%*
Equity	–	–	–	–	–	891,609	891,609
	4,059,344	3,020,467	–	–	2,265,523	1,904,288	11,249,622
Off Statement of Financial Position							
Notional value of assets derivative financial instruments	24,164	100,000	–	–	50,000	–	174,164
Notional value of liabilities derivative financial instruments	–	(102,287)	–	–	(71,877)	–	(174,164)
Sub-total off Statement of Financial Position	24,164	(2,287)	–	–	(21,877)	–	–
Net 2011 Position	$ 454,390	$ (544,161)	$ –	$ –	$ 1,560,999	$ (1,471,228)	$ –

(Canadian $ thousands, except per share amounts)

31. INTEREST RATE SENSITIVITY (CONTINUED)

As at November 1, 2010	Floating Rate	0–3 months	3–6 months	6–12 months	More Than 1 Year	Non Interest Sensitive	Total
Assets							
Cash	$ 115,734	$ –	$ –	$ –	$ –	$ 28,497	$ 144,231
Investments in associates	–	–	–	–	–	122,601	122,601
Investments	3,411	884,184	–	–	1,324	1,728	890,647
Effective yield (%)	*2.04%*	*0.96%*	–	–	–	–	*0.86%*
Member loans	4,228,286	1,374,924	–	–	3,651,644	109,870	9,364,724
Effective yield (%)	*4.02%*	*5.25%*	–	–	*5.27%*	–	*4.64%*
Other assets	–	–	–	–	–	276,907	276,907
	4,347,431	2,259,108	–	–	3,652,968	539,603	10,799,110
Liabilities and Equity							
Member deposits	3,579,885	2,749,304	–	–	2,709,675	780,505	9,819,369
Effective yield (%)	*0.84%*	*1.94%*	–	–	*2.47%*	–	*1.53%*
Other liabilities	–	–	–	–	–	138,486	138,486
Borrowings	–	–	–	–	–	–	–
Effective yield (%)	–	–	–	–	–	–	–
Equity	–	–	–	–	–	841,255	841,255
	3,579,885	2,749,304	–	–	2,709,675	1,760,246	10,799,110
Off Statement of Financial Position							
Notional value of assets derivative financial instruments	78,996	65,000	–	–	150,000	–	293,996
Notional value of liabilities derivative financial instruments	(30,000)	(55,000)	–	–	(208,996)	–	(293,996)
Sub-total off Statement of Financial Position	48,996	10,000	–	–	(58,996)	–	–
Net 2010 Position	$ 816,542	$ (480,196)	$ –	$ –	$ 884,297	$ (1,220,643)	$ –

(Canadian $ thousands, except per share amounts)

32. RELATED PARTY DISCLOSURES

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

Subsidiaries

The Credit Union has 100% ownership in Home Start Financial Ltd., All Source Mortgages Ltd., Servus Wealth Strategies Ltd., 135935 Alberta Ltd. and 51% ownership of 1626210 Alberta Ltd. These entities are controlled by Servus and all transactions and balances with these entities are eliminated upon consolidation.

Alberta Central

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

Alberta Central	**As at October 31 2012**	As at October 31 2011	As at November 1 2010
Cash	**$ 149,846**	$ 94,862	$ 119,733
Term deposits	**909,286**	764,885	879,635
Accrued interest on term deposits	**1,956**	1,011	792
Dividends receivable	**2,115**	1,305	1,350
Alberta Central line of credit	**–**	4	–

	2012	2011
Interest income term deposits	**$ 8,585**	$ 8,262
Share of profits from associates	**16,579**	5,908
Interest expense on term loans	**557**	311
Data processing, memberships fees and other	**18,295**	18,352

Crelogix

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

Crelogix	**As at October 31 2012**	As at October 31 2011	As at November 1 2010
Loans purchased	**$ 11,468**	$ 38,002	$ 31,626

	2012	2011
Interest income – loans	**$ 1,808**	$ 2,104
Loss on the sale of shares	**–**	21
Share of profits from associates	**(245)**	213

(Canadian $ thousands, except per share amounts)

32. RELATED PARTY DISCLOSURES (CONTINUED)

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 People Officer and Chief Marketing Officer.

	Salary & Bonus	**Benefits**	**Post employment benefits**	**2012**
Board of Directors	**$ 678**	**$ –**	**$ –**	**$ 678**
Chief Executive Officer (CEO)	**912**	**59**	**190**	**1,161**
Chief Financial Officer (CFO)	**362**	**29**	**23**	**414**
Chief Operating Officer (COO)	**365**	**27**	**23**	**415**
Chief Information Officer (CIO)	**376**	**29**	**23**	**428**
Chief Risk Officer (CRO)	**369**	**28**	**23**	**420**
Chief People Officer (CPO)	**346**	**27**	**23**	**396**
Chief Marketing Officer (CMO)	**301**	**25**	**21**	**347**
	$ 3,709	**$ 224**	**$ 326**	**$ 4,259**

	Salary & Bonus	Benefits	Post employment benefits	2011
Board of Directors	$ 730	$ –	$ –	$ 730
Chief Executive Officer (CEO)	849	50	170	1,069
Chief Financial Officer (CFO)	333	27	22	382
Chief Operating Officer (COO)	236	26	–	262
Acting Chief Operating Officer[1]	40	3	2	45
Chief Information Officer (CIO)	350	28	22	400
Chief Risk Officer (CRO)	340	30	22	392
Chief People Officer (CPO)	294	25	22	341
Chief Marketing Officer (CMO)	286	26	22	334
	$ 3,458	$ 215	$ 282	$ 3,955

	2012	2011
Short-term employee benefits	**$ 3,933**	$ 2,985
Post-employment benefits	**326**	282
Total compensation to key management personnel	**$ 4,259**	$ 3,267
Renumeration paid to Directors (a)	**$ 678**	$ 730
Expenses paid to Directors	**51**	137
Total compensation to Directors	**$ 729**	$ 867

(Canadian $ thousands, except per share amounts)

32. RELATED PARTY DISCLOSURES (CONTINUED)

Remuneration paid to directors, which ranged from $19 (2011 – $20) to $72 (2011 – $83) with an average of $52 (2011 – $52).

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

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

Outstanding loans		As at October 31 2012		As at October 31 2011
Key management personnel	$	6,776	$	6,102
Other employees		356,640		284,976
	$	363,416	$	291,078

Outstanding deposits		As at October 31 2012		As at October 31 2011
Key management personnel	$	10,121	$	13,375
Other employees		183,986		153,350
	$	194,107	$	166,725

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.

33. BUSINESS COMBINATIONS

During 2012, the Board of Directors approved the acquisition of 100% of the assets and liabilities of Medicine Hat Civic Employees Savings and Credit Union Ltd ("MHCESCU"). MHCESCU was in the business of personal banking serving approximately 143 members. The Credit Union paid and received cash proceeds of $108 and $421 respectively for the acquisition of certain assets and liabilities of MHCESCU. The fair value has been determined to approximate book value.

During 2011, the Board of Directors approved the acquisition of 100% of the common shares of four credit unions. The credit unions acquired were: Royglenor Savings and Credit Union Ltd., Strathfiner Credit Union Ltd., Industrial Savings and Credit Union Ltd and Edmonton Postal Credit Union Ltd. These credit unions were in the business of personal and commercial banking serving approximately 2,100 members. The Credit Union paid and received cash proceeds of $8,750 and $12,000 respectively for the acquisition of certain assets and liabilities of the four credit unions. The fair value has been determined to approximate book value.

(Canadian $ thousands, except per share amounts)

33. BUSINESS COMBINATIONS (CONTINUED)

		2012		2011
Cash proceeds paid	$	(108)	$	(8,750)
Cash proceeds received		421		12,000
Net cash proceeds received	$	313	$	3,250

		Fair value Recognized on Acquistion		Fair value Recognized on Acquistion
Identifiable assets acquired and liabilities assumed:				
Investments	$	–		$500
Member loans		108		7,900
Other assets		–		500
Member deposits		(418)		(12,000)
Common shares		(3)		(150)
Total net identifiable assets and liabilities	$	(313)	$	(3,250)
Goodwill	$	–	$	–

34. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

As stated in Note 2, these financial statements for the year ended October 31, 2012 are the Credit Union's first financial statements prepared in accordance with IFRS. The Credit Union has adopted IFRS effective November 1, 2010 ("date of transition"). Prior to the adoption of IFRS, the Credit Union prepared its financial statements in accordance with Canadian GAAP.

IFRS 1 requires first-time adopts to retrospectively apply all effective IFRS standards as of the reporting date, which for the Credit Union is October 31, 2012. The section below description the optional exemptions and mandatory exceptions from IFRS 1.

IFRS 1 Optional Exemptions and Mandatory Exceptions

In preparing these financial statements in accordance with IFRS 1, the Credit Union has applied the following optional exemptions and mandatory exceptions:

Optional Exemptions

Business Combinations

The Credit Union has elected not to retrospectively apply IFRS 3, Business Combinations, to business combinations that occurred prior to November 1, 2009 and such business combinations have not been restated.

Employee Benefits

The Credit Union has elected to recognize all cumulative actuarial gains and losses relating to its defined benefit plans as at November 1, 2010 in retained earnings.

34. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARD (CONTINUED)

Borrowing Costs

The Credit Union has elected to apply the transitional provisions of IAS 23, Borrowing Costs, which permits prospective capitalization of borrowing costs on qualifying assets from the date of transition.

Mandatory Exceptions

Derecognition of Financial Assets and Liabilities

Any non-derivative financial assets or non-derivative financial liabilities derecognized in accordance with Canadian GAAP prior to the date of transition have not been recognized on transition to IFRS.

Prior to the date of transition to IFRS, the Credit Union periodically securitized groups of residential mortgages by selling them to unrelated third parties. The transactions were accounted for as sales and the related mortgages were removed from the consolidated statement of financial position when control over the mortgages was surrendered and consideration other than beneficial interests in the transferred mortgage was received in exchange. The third parties, as holders of the securitized mortgages, have recourse only to cash flows for the securitized mortgages. The investors and the third parties have no recourse to the Credit Union’s other assets.

Under the mandatory exception contained in IFRS 1, mortgages that were derecognized prior to the date of transition have not been recognized on transition to IFRS.

Estimates

Hindsight has not been used to create or revise estimates and accordingly the estimates made by the Credit Union under IFRS are consistent with estimates made under previous Canadian GAAP.

(Canadian $ thousands, except per share amounts)

34. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARD (CONTINUED)

Reconciliation of statement of financial position as at November 1, 2010

	Canadian GAAP October 31 2010	Measurement Adjustments Refer to (a) to (h)	Presentation Adjustments Refer to (1) to (8)	IFRS November 1 2010
Assets				
Cash and cash equivalents	$ 144,231	$ –	$ –	$ 144,231
Investments	890,647	–	–	890,647
Members' loans	9,364,724	–	–	9,364,724
Income taxes receivable (1)	–	–	13,774	13,774
Foreclosed assets (2)	9,993	–	(9,993)	–
Assets held for sale (2)	9,352	–	9,993	19,345
Other assets (1,4,5,6)	41,290	–	(27,070)	14,220
Property and equipment (a,3)	198,322	675	(5,543)	193,454
Investment property (a,3)	–	(77)	5,543	5,466
Derivative financial assets (b,4)	–	9,850	9,165	19,015
Investments in associates (c)	118,777	3,824	–	122,601
Intangible assets (d)	13,112	(1,502)	–	11,610
Deferred tax assets (h,5)	–	–	23	23
Total assets	10,790,448	12,770	(4,108)	10,799,110
Liabilities				
Members' deposits (6)	9,831,908	–	(12,539)	9,819,369
Trade payables and other liabilities (1,4,5,7,8)	122,645	–	(8,736)	113,909
Income taxes payable (2)	–	–	–	–
Provisions (e,7)	–	–	1,500	1,500
Derivative financial liabilities (4)	–	–	8,730	8,730
Investment shares (f)	–	485	–	485
Defined benefit plans (g,8)	–	1,638	5,627	7,265
Deferred tax liabilities (h,5)	3,700	1587	1,310	6,597
Total liabilities	9,958,253	3,710	(4,108)	9,957,855
Member equity				
Share capital (f)	439,967	(485)	–	439,482
Retained earnings	392,228	8,980	–	401,208
Accumulated other comprehensive income	–	565	–	565
Total equity attributable to equity holders of the Credit Union	832,195	9,060	–	841,255
Non-controlling interest	–	–	–	–
Total Members' equity	832,195	9,060	–	841,255
Total liabilities and equity	$ 10,790,448	$ 12,770	$ (4,108)	$ 10,799,110

(Canadian $ thousands, except per share amounts)

34. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARD (CONTINUED)

Reconciliation of statement of financial position as at October 31, 2011

	Canadian GAAP October 31 2011	Measurement Adjustments Refer to (a) to (h)	Presentation Adjustments Refer to (1) to (8)	IFRS October 31 2011
Assets				
Cash and cash equivalents	$ 118,667	$ –	$ –	$ 118,667
Investments	770,030	–	–	770,030
Members' loans	9,957,017	–	–	9,957,017
Income taxes receivable (1)	–	–	8,647	8,647
Foreclosed assets (2)	16,136	–	(16,136)	–
Assets held for sale (2)	3,155	–	16,136	19,291
Other assets (1,4,5,6)	32,252	–	(20,495)	11,757
Property and equipment (a,3)	199,380	642	(10,800)	189,222
Investment property (a,3)	–	(73)	10,800	10,727
Derivative financial assets (b,4)	–	14,016	6,978	20,994
Investments in associates (c)	129,188	2,791	–	131,979
Intangible assets (d)	13,606	(2,393)	–	11,213
Deferred tax assets (h,5)	–	–	78	78
Total assets	11,239,431	14,983	(4,792)	11,249,622
Liabilities				
Members' deposits (6)	10,208,814	–	(11,241)	10,197,573
Trade payables and other liabilities (1,4,5,7,8)	142,444	–	(8,393)	134,051
Income taxes payable (2)	–	–	450	450
Provisions (e,7)	–	3,333	2,200	5,533
Derivative financial liabilities (4)	–	–	6,566	6,566
Investment shares (f)	–	471	–	471
Defined benefit plans (g,8)	–	1,393	5,727	7,120
Deferred tax liabilities (h,5)	4,900	1,450	(101)	6,249
Total liabilities	10,356,158	6,647	(4,792)	10,358,013
Member equity				
Share capital (f)	464,896	(471)	–	464,427
Retained earnings	417,343	8,171	–	425,512
Accumulated other comprehensive income	–	636	–	636
Total equity attributable to equity holders of the Credit Union	882,239	8,336	–	890,575
Non-controlling interest	1,034	–	–	1,034
Total Members' equity	883,273	8,336	–	891,609
Total liabilities and equity	$ 11,239,431	$ 14,983	$ (4,792)	$ 11,249,622

(Canadian $ thousands, except per share amounts)

34. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARD (CONTINUED)

Reconciliation of Net Income and Comprehensive Income for the year ended October 31, 2011

	Year ended October 31 2011 Refer to (a) to (h)
Net income and total comprehensive income as reported under Canadian GAAP	
IFRS adjustments net of tax, increase (decrease) to net income	$ 40,317
Property and equipment and investment property (a)	(29)
Derivative financial assets (b)	3,291
Investments in associates (c)	132
Intangible assets (d)	(891)
Provisions (e)	(2,407)
Investment shares (f)	(24)
Defined benefit plans (g)	155
Deferred taxes (h)	(1,062)
Net income as reported under IFRS	39,482
IFRS adjustments increase (decrease) to other comprehensive income	
Defined benefit plans (g)	71
Other comprehensive income as reported under IFRS	71
Comprehensive income as reported under IFRS	$ 39,553

Reconciliation of Members' Equity

	October 31 2011 Refer to (a) to (h)	November 1 2010 Refer to (a) to (h)
Members' equity as reported under Canadian GAAP	$ 883,273	$ 832,195
Share capital as reported under Canadian GAAP	464,896	439,967
IFRS adjustments:		
Classification of member shares	(469)	(485)
Share capital as reported under IFRS	464,427	439,482
Retained earnings as reported under Canadian GAAP	417,343	392,228
IFRS adjustments:		
Increase in fair value of embedded derivatives (b)	14,015	9,850
Website development costs (d)	(2,393)	(1,502)
Defined benefit plans (g)	(1,464)	(1,638)
Impairment of property and equipment and investment property (a)	568	598
Provisions (e)	(3,333)	–
Investment in associates (c)	2,226	3,259
Deferred taxes (h)	(1,450)	(1,587)
Retained earnings as reported under IFRS	425,512	401,208
Accumulated other comprehensive income as reported under Canadian GAAP	–	–
IFRS adjustments:		
Defined benefit plans (g)	71	–
Investment in associates (c)	565	565
Accumulated other comprehensive income as reported under IFRS	636	565
Non-controlling interest	1,034	–
Members' equity as reported under IFRS	$ 891,609	$ 841,255

34. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARD (CONTINUED)

Measurement adjustments

a) Property and equipment – Impairment of property and equipment and investment property

IFRS requires an impairment to be recognized when the recoverable value of an asset is lower than its carrying amount and does not contain an initial review of whether undiscounted cash flows exceed an asset's carrying amount. There are also differences in the level at which assets are grouped into a cash generating unit under IFRS compared to an asset group under Canadian GAAP. IFRS also allows an impairment to be reversed if the circumstances that caused the impairment no longer exist, which was not allowed under previous Canadian GAAP.

As a result, the Credit Union has reversed an impairment on a property that had been previously recognized under Canadian GAAP because the recoverable amount of the cash generating unit to which it belongs exceeds its carrying value. In addition, an impairment charge on an investment property has been recognized as a review of the fair value of the investment properties indicated that one property had a carrying value which exceeded its recoverable value. The impact of reassessment was an increase in property and equipment of $642 at October 31, 2011 (November 1, 2010 – $675), a reduction in investment property of $73 at October 31, 2011 (November 1, 2010 – $77) and an offsetting increase in retained earnings at October 31, 2011 of $568 (November 1, 2010 – $598). The impact of the impairment adjustments led to an increase in depreciation expense during 2011.

b) Derivative financial assets – Embedded derivatives

In accordance with IAS 39, contracts that contain embedded derivatives must be assessed to determine whether the embedded derivative should be separately recognized as a derivative financial instrument. Canadian GAAP had a similar requirement; however the search for embedded derivatives was limited to transactions occurring after November 1, 2002. On transition, the Credit Union identified an embedded derivative that pre-dated November 1, 2002 and therefore has recognized an increase in derivative financial assets of $14,016 at October 31, 2011 (November 1, 2010 – $9,850) with offsetting increases in retained earnings.

c) Investments in associates

The Credit Union has restated its investments in associates to recognize its equity share of its associates' IFRS transition adjustments. The impact results in increases in investments in associates of $2,791 at October 31, 2011 (November 1, 2010 – $3,824), increase in retained earnings of $2,226 at October 31, 2011 (November 1, 2010 – $3,259) and increases in accumulated other comprehensive income of $565 (November 1, 2010 – $565) with an associated decrease in net income from associates during 2011.

d) Intangible assets – Website development costs

In accordance with IFRS, costs associated with websites can only be capitalized where an entity can demonstrate how the website will generate future economic benefits. The impact of derecognition of website and intranet costs which no longer meet the criteria for capitalization was a reduction in intangible assets of $2,393 at October 31, 2011 (November 1, 2010 – $1,502) with a corresponding decrease in retained earnings. As a result of the write off of development costs, general operating expenses increased during 2011.

34. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARD (CONTINUED)

e) Provisions

IFRS requires that a provision is recognized for any contract where the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received. Canadian GAAP did not contain specific guidance relating to onerous contracts. As a result, the Credit Union has recognized a provision for an onerous contract and a reduction in retained earnings at October 31, 2011 of $3,333 with an associated decrease in retained earnings. The expense relating to the provision was recognized within general operating expenses. There was no impact to 2010.

f) Investment shares – Classification of Member shares

Under Canadian GAAP the Credit Union classified its Members' shares, including investment shares as equity. Under IFRS, Member shares that contain a right to redemption are treated as a compound financial instrument.

The Credit Union's investment shares Series E contain partial redemption rights and a portion of the shares have been treated as a compound instrument. As a result, at October 31, 2011 $471 (November 1, 2010 – $485) was reclassified from share capital to liabilities. Dividends related to the liability portion of the investment shares have been recognized as an interest expense instead of a distribution from retained earnings.

g) Defined benefit plans

Under IFRS the Credit Union has the accounting policy choice to continue to use the corridor method for recognition of actuarial gains and losses on its defined benefit plans or to recognize them as they arise in other comprehensive income. The Credit Union has elected to change its policy on transition to immediate recognition in other comprehensive income. The Credit Union also elected under IFRS 1 to recognize all previously unrecognized actuarial gains and losses at the date of transition. The resulting changes to the financial statements were as follows:

- November 1, 2010 – an increase to the employee benefits provision and a decrease in retained earnings of $1,638.
- October 31, 2011 – an increase to employee benefits provision and a decrease in retained earnings of $1,393 and an increase to accumulated other comprehensive income and other comprehensive income with a decrease to personnel expenses of $71.

h) Deferred tax liabilities

As a result of the transition to IFRS the accounting bases of carrying amounts of various assets and liabilities have been adjusted. There has not been a corresponding change to the tax bases of these assets and liabilities. As a result the deferred tax liability increased by $1,450 at October 31, 2011 (November 1, 2010 – $1,587) with a corresponding reduction in retained earnings and accumulated other comprehensive income. The deferred tax expense was reduced in net income during 2011, and tax recognized in other comprehensive income increased.

In addition to the adjustment to deferred taxes noted above, the Credit Union recognized a reduction in its deferred tax liability and an increase in retained earnings because IFRS contains a specific exemption from recognizing deferred taxes on transactions that are not business combinations and at the time of the transaction, neither accounting profit nor taxable profit is affected. The deferred tax charge in the income statement increased as a result of the adjustment during 2011.

34. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARD (CONTINUED)

Presentation adjustments

1) IFRS requires that tax balances are separately disclosed on the consolidated statement of financial position. As a result current tax receivables of $8,647 at October 31, 2011 (November 1, 2010 – $13,774) were reclassified from other assets to current tax receivables.

2) Under Canadian GAAP, foreclosed assets were separately presented on the consolidated statement of financial position. Under IFRS, foreclosed assets are presented with assets held for sale on the consolidated statement of financial position, which resulted in an increase of $16,136 at October 31, 2011 to assets held for sale (November 1, 2010 – $9,993) with corresponding reductions in foreclosed assets.

3) IFRS requires that the property held to earn rental revenue must be separately presented from property and equipment. A similar requirement did not exist under Canadian GAAP. As a result, land and buildings net book value of $10,800 at October 31, 2011 (November 1, 2010 – $5,543) have been reclassified from property and equipment to investment property.

4) IFRS requires that derivative financial assets and liabilities are separately disclosed on the consolidated statement of financial position. As a result, derivative financial assets of $6,978 at October 31, 2011 (November 1, 2010 – $9,165) and derivative liabilities of $15 at October 31, 2011 (November 1, 2010 – $73) were reclassified respectively from other assets and trade payables and other liabilities to derivative financial assets and derivative financial liabilities.

5) IFRS requires that the deferred tax assets and liabilities are separately disclosed on the consolidated statement of financial position. As a result deferred tax assets of $78 at October 31, 2011 (November 1, 2010 – $23) and deferred tax liabilities at October 31, 2011 of $(101) (November 1, 2010 of $1,310) were reclassified from other assets and accounts payables and other liabilities to deferred tax assets and deferred tax liabilities.

6) The Credit Union uses equity linked options to fix costs on term deposit products which are linked to movements in equity market indexes. Under Canadian GAAP the embedded derivative within the Member deposit was presented within Members' deposits accrued interest and the unamortized discount on the term deposit was presented within other assets. On transition the unamortized discount has been reclassified to Members' deposits and the embedded derivative has been separately presented within derivative liabilities.

7) IFRS requires that provisions must be separately disclosed on the consolidated statement of financial position. The employee benefit provisions of $2,200 at October 31, 2011 (November 1, 2010 – $1,500) were previously included within accounts payable and other liabilities and are now separately presented.

8) IFRS requires that defined benefit plans are separately disclosed in the consolidated statement of financial position. The defined benefit plans of $5,727 at October 31, 2011 (November 1, 2010 – $5,627) were previously included within accounts payable and other liabilities and are now separately presented.

9) Equity income of $12,409 for the year ended October 31, 2011 has also been reclassified from other income to net income from associates.

34. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARD (CONTINUED)

Changes to the Consolidated Statement of Cash Flows

Under IFRS cash flows from Members' loans and deposits' are classified as operating activities. Canadian GAAP had Members' loans classified as investing activities and Members' deposits as financing activities. Cash from interest receipts, interest payments and tax payments are now separately identified as a part of operating activities instead of being shown as supplementary information. Other than these changes, the transition from Canadian GAAP to IFRS had no other significant impact to the statement of cash flows.

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