servus credit union

Management's Discussion and Analysis Consolidated Financial Statements

For the year ended October 31, 2013

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SERVUS CREDIT UNION LTD.
Management's Discussion and Analysis
For the year ended October 31, 2013

Servus Credit Union Ltd.'s (Servus or the credit union) 2013 annual report consists of two parts:

1. Management's Discussion & Analysis and Consolidated Financial Statements for the year ended October 31, 2013, which detail our credit union's financial and operating results. This document is available upon request or online at servus.ca.
2. A narrative overview of Servus Credit Union in 2013, available online at servus.ca/2013.

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.

The Servus Credit Union Story

Our roots go back 75 years to 1938. Since then, we've become Alberta's largest credit union and the first province-wide credit union in Canada. Throughout our years, Servus Credit Union has provided personalized and exceptional service to our members. We're proud and honoured to have offered financial services to generations of Albertans, and we look forward to serving many more.

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

The day-to-day operations of Servus Credit Union are overseen by our Executive Leadership Team. Led by our President and Chief Executive Officer (CEO), the team consists of a Chief Financial Officer, Chief Operating Officer, Chief People & Corporate Services Officer, Chief Information Officer, Chief Credit Officer, Chief Brand & Corporate Social Responsibility Officer and Vice President Strategy & Governance.

Servus is a co-operative financial institution that is committed to Member Ownership, Exceptional Service, Local Decision-Making, Profit Share, 100% Deposit Guarantee and Community Support. Our members benefit from the credit union's success through our Profit Share program. Our communities benefit through our financial support. Our communities are also strengthened by employees who generously volunteer their time.

That's why the Servus story is the story of us all.

Vision, Mission and Values

Underlying everything we do are our vision, mission and values. They provide clear direction for our credit union, focus our efforts and guide our operations. The provincial, national and global economy may change over the years, but we know where we're going and how we're going to get there.

Our Vision

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

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 in 2013

As a member, employee or stakeholder in the credit union system, you want to know how we view the financial story of our year.

The world around us: Market and economic environment

Alberta had a solid economic performance in 2013, and the financial results of Servus Credit Union reflect these strong business conditions.

The province's economic growth led our country in 2013, and we expect it will continue this momentum in the medium term. The employment picture and population growth of the province were strong, and this, in turn, supported solid loan and deposit growth. Alberta attracted many aggressive financial service competitors based outside the province and even our country. We appreciate the significant effort of our employees to achieve the Servus business volume growth and profit levels of 2013.

Looking ahead to 2014, we expect Servus to continue benefiting from a positive economic environment in Alberta, delivering financial results very similar to those of 2013.

How the year unfolded: Key performance drivers

Objective	Measure	2013 Target	2013 Result
Financial Performance			
Financial growth	Operating income (millions)[1]	$110.143	$118.486
Reduced dependency on interest-based income	Other income as a percentage of average assets[1]	0.582%	0.625%
Leveraging assets profitably	Return on assets[1]	0.848%	0.939%
Employee Experience			
High-level employee satisfaction	Employee engagement score as reported by employee survey	76%	82%
Dedicated to life-long learning	Per cent of employees attending development programs	72%	75.95%
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	78%	*75.4%
Servus Members as Advocates	Member Loyalty Index	48%	*46.3%
Business Processes			
Business process improvements for effectiveness and efficiency	Operating efficiency ratio[1,2]	71.670%	68.922%
	Operating expenses as a percentage of average assets[1]	2.306%	2.254%

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

* Results have a +/- 2.5% confidence interval

SERVUS CREDIT UNION LTD.
Management's Discussion and Analysis
For the year ended October 31, 2013

The inside story: Our performance this year

Perhaps our biggest success in 2013 came as a result of something that we have been doing every year, maybe without fully appreciating how much it matters to our employees, members and communities. It mattered this year.

In 2013, Servus paid another record-breaking total profit share of $47.5 million, which consisted of $26.7 million in patronage and $20.8 million in common share and investment share dividends. We have shared profits with our members in this way every year since our amalgamation in 2008. In fact, since this credit union was created, we've given our members $223 million back in profit share. Our members, not distant shareholders, benefit from our success. That is Servus' story, and it's one we're proud to tell.

The $47.5 million we paid in profit share in 2013 goes back to our members – nearly 400,000 Albertans from all walks of life. This program is one of the key ways we live the credit union difference, helping to ensure that Servus' success is shared with the members who help us achieve it.

And the story gets better. Since our merger, we've given almost $8 million to local communities, helping them in their efforts to build a better world. Our members and communities benefit when we succeed through the hard work and dedication of our employees.

Servus continues to rank highest in quality of member service among financial institutions in Alberta according to independent surveys, but our overall member satisfaction score fell just below our target for 2013. As a whole, the financial industry continued to suffer from a declining reputation, and Servus was not immune from this trend. We are sensitive to this decline and will use it as motivation to improve.

The fundamental strength of the co-operative model comes from the ability to solve different problems. One such problem is growing wealth disparity around the world. Servus is well positioned to help find local solutions to global and national issues because of our very nature as a co-operative. We can make this happen within structures and regulations that already exist, and without needing to exert social or political pressure. We help find solutions because we are a credit union and a co-operative. It is what we are. When it comes to something like our sharing of profits, your credit union is already here, helping to build a better world—one member at a time.

While we are very proud of our credit union's profit sharing and investment in our communities, any payment of profit share must begin with sound financial results. The following is a detailed discussion of our credit union's business environment and the year's financial, strategic and governance results.

Net Interest Income

Net Interest Income is the difference between what is earned on loans and what is paid on deposits. Although this income increased in dollar terms (up $15.3 million from 2012) it decreased as a percent of average assets, from 2.74% in 2012 to 2.66% in 2013. What this means is that on average the difference between what we are earning from loans and paying on deposits—our margin—is getting smaller. Much of this is due to the very low interest rate environment, but increasing competition for business has also been a factor. This is good news for our members but a challenge for Servus because margin is our largest source of revenue. We worked hard in 2013 to manage our operating costs to align with the changes in revenue, and we have been successful in these efforts.

Provision for Credit Losses

In 2013, our Provision for Credit Losses increased by $2.3 million. The increase was largely from the flooding that Alberta experienced during the year, given the extent of the devastation to homes and businesses. Other than these estimated flood losses, the impact of our total provision for credit losses is consistent with that of 2012 and at a level the credit union considers acceptable and manageable.

Other Income

The area of Other Income includes revenues from wealth management, card services, foreign exchange and service fees. In total, revenues from Other Income were up $6.1 million, or 8.2%, compared to 2012.

Below is a more detailed break-down of our 2013 results compared to 2012:

- Revenues from wealth management and insurance were $2.7 million, or 12%, higher as members continued to find value in advice and product offerings in the areas of mutual funds, insurance, financial planning, and trust and estates. One of the benefits from the merger is our ability to offer a full range of services to members across the province. Revenue results suggest that these services are appreciated by our members.
- Income from service fees was almost unchanged, falling $121,000, or 1%.
- Income from card services was $3.6 million higher because of strong growth in this area. This increase, however, is not expected to be repeated in future years.

Operating Expenses

With increased downward pressure on interest income as a percent of assets, Servus worked hard to balance the cost of delivering services with our income from those services. Achieving this balance will ensure we can offer our members competitive pricing on their products while also working toward the long-term, stable financial results every financial institution needs to succeed.

During 2013, operating expenses increased by $9.6 million, or 3.3%, well below the rate of loan and deposit growth. Diligent management of Servus' operating expenses will continue through 2014. We understand that every dollar spent is a dollar that could be applied to our credit union difference for the benefit of our members.

At the same time, we understand that we must also ensure that enough is being invested in our employees, processes and services. In this competitive Alberta employment market, our employees are an important part of our success. As technology changes and businesses evolve, our goal is to offer the services our members want and need to succeed. These investments create a healthy work culture and successful financial institution. This delicate balance is carefully considered by our member-elected board and our management team.

Operating Income

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

During 2013, our Operating Income was $118.5 million, an increase of 11.7%, or $12.4 million, over the previous year. This strong performance was rooted in the excellent results in Other Income combined with attention to cost management during the year. Including the impact of all elements of the income statement, the Total Comprehensive Income for the credit union increased by 17%, or $10.7 million, compared to 2012.

Capital

Capital represents Servus' ability to successfully manage the down cycles that every economy is subject to. The higher our level of capital, the better we are positioned to deal with unexpected negative developments. Building a sound base of high-quality capital is one of the ways the board and management fulfill their responsibilities to members. Having strong capital ensures that Servus can continue to be a successful financial co-operative for our next generation of members.

Some notable changes in capital are as follows:

- Servus views retained earnings as our highest quality and primary source of capital. The ratio of retained earnings (after regulatory adjustments) to total assets increased from 3.45% in 2012 to 3.68% in 2013. Part of this increase was from a one-time dividend paid to credit unions by Alberta Central, which is not expected to be repeated on an ongoing basis. Our objective is to meet the regulatory requirement for total capital as a percent of assets (currently 4%) through retained earnings balances alone.
    - Servus' capital as a percent of total assets increased from 7.49% to 7.54%. This amount was almost double the regulatory minimum and also well above the minimum target of 5.25% we've set for ourselves. Servus has a longer-term target of 8% for this measure, and we expect to achieve this target by the end of fiscal 2016.
    - Servus' capital as a percent of risk weighted assets (a method of ranking assets and loans based on how risky they are seen to be) decreased from 13.32% in 2012 to 13.02% in 2013. This was due to the large increase in higher risk weighted assets such as commercial lending during 2013. We have a plan to balance the rate of commercial loan growth with our increase in capital to bring this ratio closer into line with our objective of 13.50%. We expect to accomplish this goal by the end of fiscal 2016.

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

Year	2013	2014	2015
Capital as a % of Risk Weighted Assets	9.00	10.50	11.50

In addition, by 2017 CUDGC expects credit unions to have in place internal policies targeting capital levels at least 2% above these figures. For Servus, this translates into a target of 13.50%.

Servus was more than compliant with these targets in 2013, holding 13.02% capital compared to a minimum regulatory target of 9.00%. We have a plan in place to meet the 2017 objective at least one year before it comes into force.

The next chapter

On the horizon: Outlook for 2014

Alberta's economic situation has been fairly positive and stable for a number of years now, despite international turmoil. Can that continue through 2014? We believe the answer is yes. It appears the international turmoil is slowly waning and the US economy is getting on firmer footing.

Economy

Alberta was the beneficiary of solid economic growth, increases in employment, and high net migration both from within and outside Canada, with a backdrop of extremely low interest rates.

We acknowledge the risk the province faces from slowing demand in China and other developing nations as well as the potential of increased oil supply in the United States. However, we feel the most likely outcome for 2014 is continued demand for the goods produced by Alberta and with that economic growth and employment much like that of 2013.

Housing prices in Canada are certainly high when compared to average salaries and this is an area where we agree with the concerns voiced by the Bank of Canada and others. The factors supporting Alberta housing, however, look to be intact through 2014. Strong employment, sound net migration, wage increases and extremely low interest rates have underpinned the housing market in Alberta. At this point, there is no strong evidence that any of these key factors is at risk.

Yet the risks to this forecast are rising. These include slowing emerging markets and the potential for greater oil production in the United States. In contrast, we note that risks are declining in areas such as the stability of the US economy. Overall, we feel the balance of risk remains positive for 2014.

Interest Rates

Changes in interest rates matter a great deal to Servus and to our members. For the past five years, interest rates have been at historically low levels, contributing to an increase in consumer debt and creating serious problems for members in retirement who are living on their savings. The low-rate environment also puts downward pressure on our net income. Like members in retirement or saving for their retirement, Servus has been waiting to see when interest rates will begin to rise again.

Our forecast for 2014 will make borrowing members happy, but the news is not as good for those who are saving. While economic conditions in the United States are improving and Canada has been experiencing positive economic growth for a number of years, we do not believe the central bank in either country will increase interest rates in the near future.

Our interpretation of the actions of the central banks is that in both Canada and the United States the focus has shifted away from concerns about the unintended consequences of holding interest rates too low to an emphasis on inflationary pressures as a driver of changes in interest rate policy. If this view is correct, we do not believe inflationary pressures will provide sufficient justification for rate increases by the central bank in Canada or the United States through most of 2014.

We may see some increase in the longer-term and five-year interest rates as the markets seek to anticipate how the central banks will behave in 2016 and beyond, but there appears to be much less chance of experiencing changes in short-term rates such as prime.

Interest Rates (Continued)

This suggests continued pressure on interest income at Servus. Although we don't expect net interest income to improve in 2014, it should improve whenever interest rates do begin to rise. We have taken this into account when preparing our budgets for 2014 and our long-term plans to ensure the credit union is financially sound and successful.

The story continues: 2014–2016 Strategic Plan

In 2013, Servus maintained an organization-wide focus on a number of strategic priorities as we continued to work on our foundational strategies: value proposition, members first, corporate social responsibility and our financial sustainability model to name a few.

Key strategic priorities include ongoing work on business process and continuity, which includes Fusion, and on development of our long-term delivery strategy and value proposition. These strategic priorities are critical to achieving our vision of building a better world.

Fusion includes the harmonization of core banking platforms and the introduction of new banking software. More than that, however, it represents a significant technology and business process improvement for Servus that will benefit members. Fusion will provide the infrastructure Servus needs to fully deliver on other priorities and harmonize our operations. Early in 2014, we will introduce a new online banking platform, mobile banking and e-transfer to our members. Shortly afterward, we will complete the harmonization of our operations into one core banking system by integrating our members in the Red Deer region, planned for the spring of 2014.

The integration of the banking system is not simply rolling out a new computer program. Rather, it is an opportunity to bring our credit union together on one operating system and deliver better service to all our members.

We learned a lot through the development of the value proposition and by asking members and potential members how they want to deal with Servus now and in the future. Using this information, we are creating a strategy to guide our investments in current and evolving delivery channels. This long-term delivery strategy will serve as the foundation for branch design and geographic expansion. It will also take advantage of the new technology and delivery channels provided by Fusion.

With all the harmonization work continuing and further changes coming in the years ahead, we will also be developing and implementing an organizational change management strategy. This strategy will support Servus' leaders and all employees in adapting and being responsive to change while continuing to deliver a high-quality member experience.

Balanced Scorecard

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

Member Experience

We will continue to provide exceptional member service by providing the most appropriate products, programs and services to meet members' expectations and diverse needs.

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, and mentoring and leadership development programs.

Financial Performance

As a member-owned financial institution, we strive for financial sustainability and diversity so we can be profitable and serve our members' best interests for years to come. A credit union is a generational trust and must be operated with a plan to ensure long-term financial viability so that we are available to help the next generation of members.

Business Processes

We will continue to review and improve our business processes as measured by the operating efficiency ratio and operating expenses as a percent 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 governs with a focus on organization-wide policy and strategy, recognizes its responsibility and accountability to our member-owners, and is committed to continuously improving effectiveness. As an organization, we are committed to being a leader in providing support and guidance to the entire credit union system.

As we plan for our future, we must keep our focus on our vision, mission and values. We must continue to build the foundations of Servus. And when we are fully integrated, we will be ready to take full advantage of opportunities that will bring us closer to our vision of building a better world—one member at a time.

Behind the scenes:

Corporate Governance

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

Board Mandate

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

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

Board Structure

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

There are three board committees:

Audit and Finance Committee

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

Governance and Human Resource Committee

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

Enterprise Risk Management Committee

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

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

Position Descriptions

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

Orientation and Education

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

These and other learning opportunities enable our directors to further develop their knowledge and skills and enhance their performance on the board. A Board Competency and Skills matrix was developed and introduced for use by the board in 2012 to help determine training needs.

Ethical Conduct

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

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

Nomination

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

We provide profiles on all board candidates to our members in statement mailings, on our website and in our branches. Voting is held at every branch and online. The Governance and Human Resource Committee reviewed the electoral process in 2012 and 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 are based on skills and competencies key to the continued success of the credit union.
- The Board Nominating Committee is made up of members of the board's Governance and Human Resource Committee, two Community Council representatives and an independent advisor from the private sector.
- Amended candidate eligibility prevents sitting Members of the Legislative Assembly from running for the board.
- Candidates provide responses to four questions, in addition to other background materials, which are then made available so members can get a better understanding of where they stand on key issues.
- Amended campaigning policy allows for the use of social media by candidates.

Director Remuneration

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

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

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

Performance Evaluation

Each year, the Board of Directors and the CEO are evaluated to assess their effectiveness and to identify opportunities for improvement. Performance evaluations for the Board include a self-assessment tool as well as a peer review. Additional feedback is gathered for the board chair and each board committee regarding their performance and areas for improvement.

The board assesses the CEO's performance each year by reviewing results against the balanced scorecard targets as well as looking at overall performance.

Board and Committee Meetings

The Board of Directors held seven regular meetings in 2013 and a two-day planning session in April.

During the year, the Audit and Finance Committee met 10 times, the Enterprise Risk Management Committee met six times, and the Governance and Human Resources Committee met 10 times. Additional ad-hoc committee meetings were held as required.

Directors participated in the following:

- Servus' Annual General Meeting held in Edmonton in March 2013
- The Credit Union Central of Alberta Conference and Annual General Meeting held in April 2013
- The World Credit Union Conference held in July 2013
- Credit Union Central of Alberta Fall Conference held in Red Deer in October 2013

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 31 on Financial Risk Management in the 2013 Consolidated Financial Statements for more details.)

Enterprise Risk Management

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

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

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

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

The CEO is responsible and accountable for risk management. Day-to-day monitoring and reporting on risk is delegated to the Senior Vice President Risk and Audit. Three management committees—the Asset Liability Committee, the Management Credit Committee and the Management Risk Committee—identify, assign and monitor risks through their work. Ownership of key risks is delegated to the appropriate Executive Leadership Team member.

Board of Directors Oversight Risk Management Framework

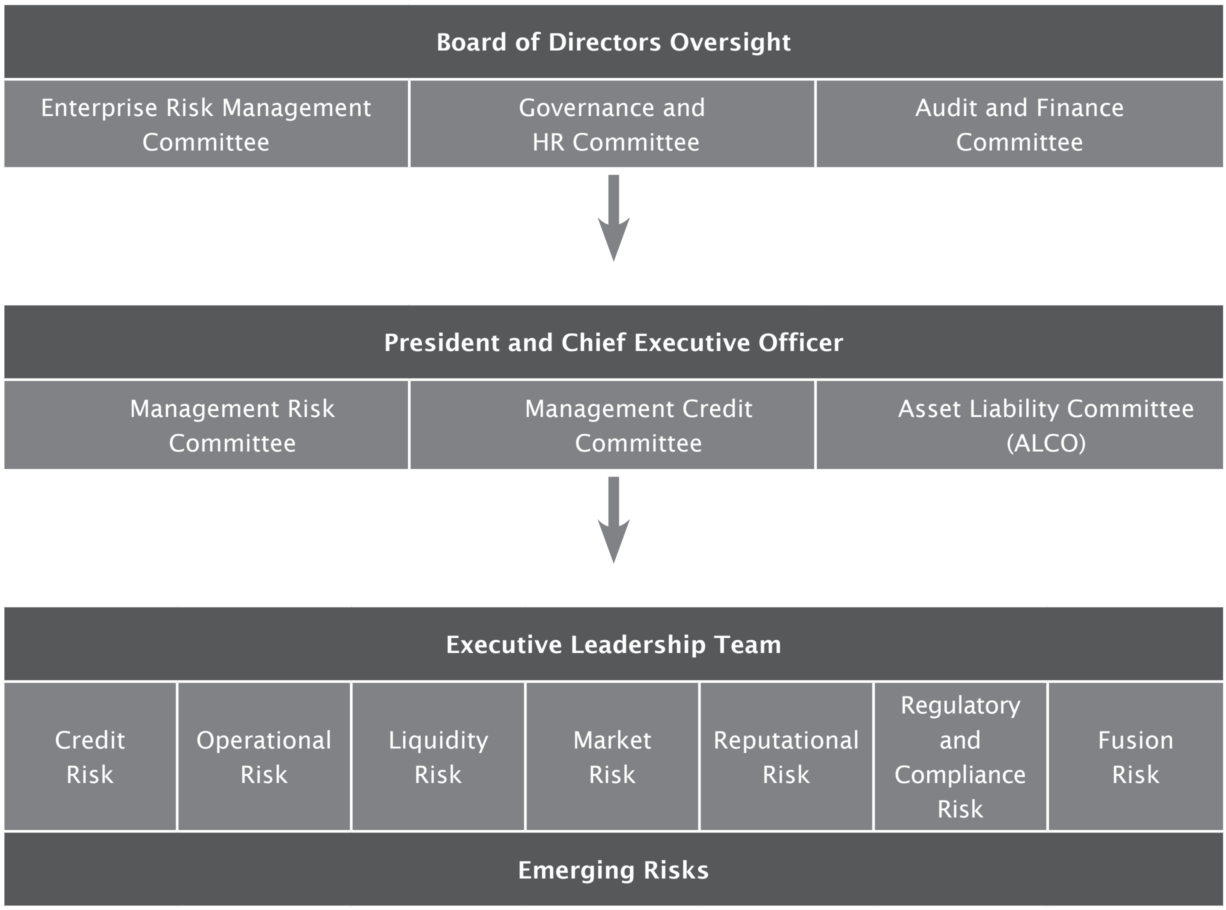

Figure 1: Servus Credit Union's Enterprise Risk Management Governance Model

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

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

Practices and the legislative environment

1. Policies, Strategies and Limits

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

2. Guidelines

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

3. Processes and Standards

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

4. Measurement and Reporting

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

Policies, Strategies Environment

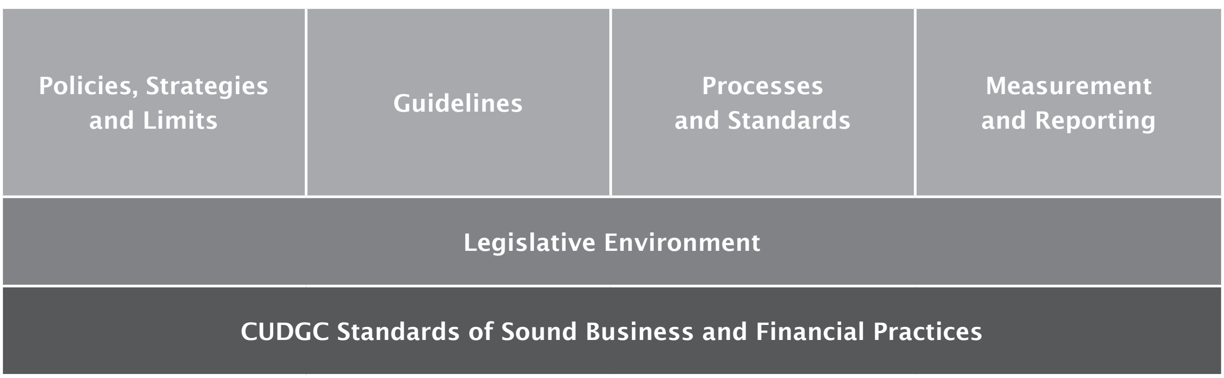

Figure 2: Servus Credit Union's Risk Management Framework

Types of Risk

Servus groups its major risks into eight categories:

1. Credit Risk

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

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

2. Operational Risk

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

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

3. Liquidity Risk

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

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

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

4. Market Risk

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

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

5. Reputation Risk

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

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

6. Regulatory and Compliance Risk

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

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

7. Fusion Risk

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

8. Emerging Risks

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

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.

SERVUS CREDIT UNION LTD.
Consolidated Financial Statements

For the year ended October 31, 2013

SERVUS CREDIT UNION LTD.
Consolidated Financial Statements

Management's Responsibility for Financial Reporting

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

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

The Board of Directors (the Board) has approved the Consolidated Financial Statements. The Board has appointed an Audit and Finance Committee, 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, examined the Consolidated Financial Statements and accompanying notes of the Credit Union in accordance with Canadian generally accepted auditing standards. They have had full and free access to the internal audit staff, other management staff and the Audit and Finance Committee. Their independent auditor's report outlines the scope of their examination and their opinion.

Garth Warner

President & Chief Executive Officer (CEO)

Ian Glassford, MBA, CMA

Chief Financial Officer (CFO)

Edmonton, Alberta

January 30, 2014

Independent Auditor's Report

To the Members of Servus Credit Union Ltd.

We have audited the accompanying consolidated financial statements of Servus Credit Union Ltd., which comprise the consolidated statement of financial position as at October 31, 2013, and the consolidated statement of income and comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended October 31, 2013, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

We believe that the audit evidence we have obtained in our audit 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, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Accountants

Edmonton, Alberta

January 30, 2014

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

	Notes	**October 31 2013**	October 31 2012
Assets			
Cash and cash equivalents	5	**$ 142,310**	$ 176,832
Investments	6	**803,972**	913,323
Members' loans	7,9	**11,743,165**	10,677,621
Assets held for sale	10	**9,752**	14,586
Other assets	11	**12,406**	11,951
Property and equipment	12	**178,808**	181,898
Investment property	13	**7,404**	10,405
Derivative financial assets	14	**24,976**	22,307
Investments in associates	15	**152,679**	150,697
Intangible assets	16	**40,959**	25,577
Deferred income tax assets	17	**19**	60
Total assets		**13,116,450**	12,185,257
Liabilities			
Secured borrowing	18	**17,630**	-
Members' deposits	19	**11,870,882**	11,047,029
Trade payables and other liabilities	21	**136,839**	132,140
Income taxes payable		**3,470**	1,922
Provisions	22	**454**	2,250
Derivative financial liabilities	14	**7,547**	7,732
Investment shares	24	**449**	471
Defined benefit plans	23	**7,283**	7,570
Deferred income tax liabilities	17	**11,359**	9,524
Total liabilities		**12,055,913**	11,208,638
Equity			
Share capital	24	**529,009**	502,199
Retained earnings		**530,067**	473,163
Accumulated other comprehensive income		**447**	225
Total equity attributable to members of the Credit Union		**1,059,523**	975,587
Non-controlling interest		**1,014**	1,032
Total equity		**1,060,537**	976,619
Total liabilities and equity		**$ 13,116,450**	$ 12,185,257

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

Jonathon Holt, Chair, Audit and Finance Committee

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

	Note	Year ended October 31 2013	Year ended October 31 2012
Interest income			
Members' loans		$ 463,148	$ 446,321
Investments	25	8,900	7,898
Total interest income		472,048	454,219
Interest expense			
Members' deposits		136,457	135,423
Other interest expense	26	2,080	557
Total interest expense		138,537	135,980
Net interest income		333,511	318,239
Other income	27	80,742	74,638
Share of profits from associates	15	21,538	16,334
Net interest income and other income		435,791	409,211
Provision for credit losses	8	10,722	8,415
Net interest income after provision for credit losses		425,069	400,796
Operating expenses			
Personnel		181,044	170,942
General		60,044	62,679
Occupancy		21,050	19,611
Member security		18,316	18,090
Depreciation	12,13	14,553	15,018
Organization		4,516	4,042
Impairment of intangible assets	16	1,295	1,119
Amortization	16	1,691	1,411
Total operating expenses		302,509	292,912
Income before patronage allocation to members and income taxes		122,560	107,884
Patronage allocation to members	24	26,655	26,488
Income before income taxes		95,905	81,396
Income taxes	17	22,672	18,232
Net income		$ 73,233	$ 63,164
Other comprehensive income (loss)		222	(411)
Total comprehensive income		$ 73,455	$ 62,753
Other Comprehensive income (loss) for the year, net of tax:			
Actuarial gains (losses) on defined benefit pension plans[1] (net of income taxes of $61, 2012 – ($109))	23	222	(411)
Total other comprehensive income (loss)		$ 222	$ (411)
Total Comprehensive Income			
Comprehensive income attributable to members		73,473	62,755
Comprehensive loss attributable to non-controlling interest		(18)	(2)
Total comprehensive income		$ 73,455	$ 62,753

[1] *The Actuarial gains/losses will not be reclassifed to profit or loss at a future date.*

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

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

	Notes	Year ended October 31 2013	Year ended October 31 2012
Share capital			
Common shares			
Balance, beginning of year	24	$ 393,027	$ 358,079
Issued	24	25,533	37,088
Redeemed	24	(15,899)	(16,463)
Share dividend	24	15,500	14,323
Balance, end of year	24	418,161	393,027
Investment shares			
Balance, beginning of year	24	109,172	106,348
Redeemed	24	(3,047)	(1,896)
Share dividend	24	4,723	4,720
Balance, end of year	24	110,848	109,172
Share capital, end of year	24	$ 529,009	$ 502,199
Retained earnings			
Balance, beginning of year		$ 473,163	$ 425,512
Net income		73,233	63,164
Dividend (net of income tax recovery of $4,482, 2012 – $4,122)		(16,329)	(15,513)
Retained earnings, end of year		$ 530,067	$ 473,163
Accumulated other comprehensive income (AOCI)			
Balance, beginning of year		$ 225	$ 636
Actuarial gains (losses) on defined benefit pension plans		222	(411)
AOCI, end of year		$ 447	$ 225
Total equity attributable to members of the Credit Union		$ 1,059,523	$ 975,587
Non-controlling interest			
Balance, beginning of year		1,032	1,034
Net loss		(18)	(2)
Non-controlling interest, end of year		1,014	1,032
Total equity		$ 1,060,537	$ 976,619

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

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

	Year ended October 31 2013	Year ended October 31 2012
Cash Flows (Used in) From Operating Activities		
Net income	**$ 73,233**	$ 63,164
Adjustments for non-cash items and others		
Net interest income	**(333,511)**	(318,239)
Provision for credit losses	**10,722**	8,415
Net loss attributable to non-controlling interest	**(18)**	(2)
Net income from investments in associates	**(21,538)**	(16,334)
Depreciation and amortization	**16,244**	16,429
Impairment of intangible assets	**1,295**	1,119
(Gain) loss on assets held for sale	**(228)**	1,281
Loss on sale of property and equipment	**625**	1,052
Income taxes	**22,672**	18,232
Adjustments for net changes in operating assets and liabilities		
Change in members' loans	**(1,074,713)**	(724,471)
Change in members' deposits	**819,955**	853,549
Change in assets held for sale	**4,684**	3,637
Change in derivatives	**(2,854)**	(131)
Net change in other assets, provisions, and trade payables and other liabilities	**2,591**	(2,203)
Income taxes received and paid, net	**(19,309)**	(8,113)
Interest received	**471,743**	449,185
Interest paid	**(134,639)**	(140,528)
Net cash (used in) from operating activities	**(163,046)**	206,042
Cash Flows From (Used in) Investing Activities		
Additions to intangible assets	**(18,368)**	(16,813)
Additions to property and equipment and investment property	**(12,631)**	(16,574)
Cash acquired from business combination	–	313
Proceeds on disposal of property and equipment, and investment property	**3,224**	7,945
Proceeds on disposal of assets held for sale	**644**	–
Purchase of Alberta Central shares	**(9,500)**	(4,500)
Distributions from Alberta Central	**29,056**	2,115
Investments	**108,103**	(142,352)
Net cash from (used in) investing activities	**100,528**	(169,866)
Cash Flows From Financing Activities		
Advances of secured borrowing	**24,177**	–
Repayment of secured borrowing	**(6,547)**	–
Repayment of obligation under finance leases	**(115)**	(270)
Dividend paid	**(588)**	(592)
Tax recovery on dividend paid	**4,482**	4,122
Shares issued	**25,533**	37,088
Shares redeemed	**(18,946)**	(18,359)
Net cash from financing activities	**27,996**	21,989
(Decrease) increase in Cash and cash equivalents	**(34,522)**	58,165
Cash and cash equivalents, beginning of year	**176,832**	118,667
Cash and cash equivalents, end of year	**$ 142,310**	$ 176,832

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

1. REPORTING ENTITY

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

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

2. BASIS OF PRESENTATION

These consolidated financial statements ("financial statements") of the Credit Union have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("IASB") and using the accounting policies the Credit Union adopted for its financial statements for the year ending October 31, 2013. The significant accounting policies applied in the preparation of the financial statements are described in Note 3.

The financial statements for the year ended October 31, 2013 were authorized for issue by the Board of Directors on January 30, 2014.

Basis of Measurement

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

Functional Currency

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

Use of Estimates, Assumptions and 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 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, valuation of financial instruments, lease classification, consolidation of Special Purpose Entities ("SPEs"), 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., which provides mortgage brokerage services to a number of lenders, including the Credit Union;
- All Source Mortgages Ltd., which provides mortgage brokerage services to a number of lenders, including the Credit Union;
- Servus Wealth Strategies Ltd., which provides wealth management services;
- 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 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 share of profits from associates in the consolidated statement of income and comprehensive income. Dividends received are recorded as a reduction in the investment.

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. No financial assets are classified as held-to-maturity for the year ended October 31, 2013.

Available-for-Sale Financial Assets

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

Debt securities and equity securities are classified as available for sale and are measured at fair value. The Credit Union uses current market interest rate quotations to estimate the fair values of these investments. Unrealized gains and losses, net of taxes, are reported in other comprehensive income. No financial assets are classified as available-for-sale that are measured at fair value for the year ended Ocotber 31, 2013.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Financial Liabilities

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

Financial Instruments - Derecognition

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

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

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

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

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

Cash and Cash Equivalents

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

Derivative Financial Instruments

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

The Credit Union enters into derivative contracts to manage financial risks associated with movements in interest rates and other financial indices. The Credit Union does not use derivative instruments for trading or speculative purposes. The Credit Union uses quotations based on current observable market data to estimate the fair value of all derivative financial instruments.

Derivative financial instruments are measured at fair value on the consolidated statement of financial position. Derivatives with a 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 in the consolidated statement of income and comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Estimated Fair Value

The fair value of a financial instrument is the 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. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

An impairment loss in respect of an available-for-sale financial asset held at cost is calculated as the difference between its carrying value and the present value of estimated future cash flows discounted at the current market rate of return for a similar asset. The cumulative loss less any impairment loss on that financial asset previously recognized in net income is reclassified from Members' equity and recognized in net income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in net income, the impairment loss is reversed through net income. Impairment losses recognized in net income on equity instruments 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Intangible Assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Defined Benefit Plans

The Credit Union provides a defined benefit supplemental pension plan and a post-retirement benefits plan to qualifying employees. Post retirement benefits include extended health care, dental 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.

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

Revenue Recognition

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

Interest income and expense

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Account service charges

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

Commissions and fees

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

Dividend income

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

Patronage Allocation to Members

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

Income Taxes

Income tax expense comprises current and deferred tax. Current and deferred taxes are recognized in net income except to the extent that they relate to a business combination or items that are recognized in other comprehensive income or directly in equity. Tax impacts that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend is recognized. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years. Current tax for current and prior years is recognized as a liability to the extent that it is unpaid.

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

Deferred tax is 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Amendments to IAS 1 Presentation of Financial Statements

On November 1, 2012, the Credit Union adopted IAS 1 Presentation of Financial Statements (amendments to IAS 1), issued by the IASB in June 2011. The amendments require items presented in the statement of other comprehensive income to be categorized according to whether the items will or will not be reclassified to income at a future date. The adoption did not impact our financial results but did impact the presentation of the consolidated statement of income and comprehensive income.

4. FUTURE ACCOUNTING CHANGES

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

- **Effective for the Credit Union – November 1, 2013**
  - **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.
  - **IFRS 10 Consolidated Financial Statements and amendment of IAS 27**
    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. IAS 27 has been amended for the issuance of IFRS 10.

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.

- **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.

- **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.

- **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.

• **Effective for the Credit Union – November 1, 2014**

- **IAS 32 Financial Instruments: Presentation**
  The standard has been amended requiring the presentation of financial assets and financial liabilities on a net basis when doing so reflects an entity's expected future cash flows from settling two or more separate financial instruments.

- **IFRIC 21 Levies**
  In May 2013, the IASB issued IFRIC 21 which provides guidance on when to recognize a liability to pay a levy that is accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. It also addresses the accounting for a liability to pay a levy whose timing and amount is uncertain.

• **Effective for the Credit Union – November 1, 2015 and beyond**

- **IFRS 9 Financial Instruments**
  In November 2009, the IASB issued IFRS 9 as part of its plan to replace IAS 39, Financial Instruments: Recognition and Measurement (IAS 39). IFRS 9 requires financial assets, including hybrid contracts, to be measured at either fair value or amortized cost.

  In October 2010, the IASB added to IFRS 9 the requirements for classification and measurement of financial liabilities previously included in IAS 39. In November 2013, the IASB introduced a new hedge accounting model, and allowed early adoption of the own credit provisions of IFRS 9. It also removed the mandatory effective date of January 1, 2015 and has not proposed a future effective date.

(Canadian $ thousands, except per share amounts)

5. CASH AND CASH EQUIVALENTS

	As at October 31 2013	As at October 31 2012
Cash on hand	$ 16,996	$ 17,194
ATM	11,431	10,209
Foreign exchange cash	105	39
Cash with Alberta Central	117,891	149,846
Cheques and items in transit	(4,113)	(456)
Total	$ 142,310	$ 176,832

6. INVESTMENTS

	As at October 31 2013	As at October 31 2012
Term deposits with Alberta Central	$ 801,205	$ 909,286
Debentures	1,250	1,250
Other	794	816
	803,249	911,352
Accrued interest	723	1,971
Total	$ 803,972	$ 913,323

7. MEMBERS' LOANS

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

	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

(Canadian $ thousands, except per share amounts)

8. ALLOWANCE FOR CREDIT LOSSES

Specific Allowance

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

	Residential	Commercial	Consumer	Agricultural	Interest	Total
As at October 31, 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

Collective Allowance

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

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

(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.

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

As at October 31, 2012	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 – Impaired Risk – performing	–	1,191	–	–	1,191
7 and 9 – Unacceptable/impaired risk – non-performing	–	25,217	–	495	25,712
Commercial & agricultural 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
Loans specifically impaired	825	36,742	4,831	596	42,994
Sub Total	6,121,552	3,182,053	1,060,593	311,421	10,675,619
Accrued interest	11,759	13,719	9,554	3,955	38,987
Total	$ 6,133,311	$ 3,195,772	$ 1,070,147	$ 315,376	$ 10,714,606

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

(Canadian $ thousands, except per share amounts)

9. CREDIT QUALITY OF MEMBERS' LOANS (CONTINUED)

Loans past due as at October 31, 2013

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

Loans past due, as at October 31, 2012

	Residential	Commercial	Consumer	Agricultural	Total
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
Total	$ 144,197	$ 112,631	$ 26,754	$ 9,861	$ 293,443

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, 2013

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

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
Total	$ 143,371	$ 75,890	$ 21,923	$ 9,265	$ 250,449

(Canadian $ thousands, except per share amounts)

9. CREDIT QUALITY OF MEMBERS' LOANS (CONTINUED)

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

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

	As at October 31 2013	As at October 31 2012
Loans by security:		
Secured by mortgage	**$ 8,515,834**	$ 7,677,744
Secured by other	**2,566,171**	2,112,913
Unsecured	**698,886**	923,949
Total	**$ 11,780,891**	$ 10,714,606

10. ASSETS HELD FOR SALE

	As at October 31 2013	As at October 31 2012
Foreclosed property	**$ 6,317**	$ 11,218
Other land and buildings	**3,435**	3,368
Total	**$ 9,752**	$ 14,586

11. OTHER ASSETS

	As at October 31 2013	As at October 31 2012
Retained rights to future excess spread	**$ 11**	$ 978
Accounts receivable	**5,463**	6,493
Prepaid items	**6,932**	4,480
Total	**$ 12,406**	$ 11,951

(Canadian $ thousands, except per share amounts)

12. PROPERTY AND EQUIPMENT

	Land	Buildings	Leasehold improve-ment	Furniture, office equipment and vehicles	Computer equipment	Leased equipment	Airplane	Total
Cost								
Balance as at October 31, 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)	(3,014)	–	–	(11,015)
Transfer to/from assets held for sale	(3,317)	(2,164)	(136)	–	–	–	–	(5,617)
Other transfers	–	–	982	74	(30)	–	–	1,026
Balance as at October 31, 2012	25,324	150,634	36,147	35,553	17,637	1,269	975	267,539
Additions	446	2,414	2,884	1,447	5,440	–	–	12,631
Disposals	(223)	(4,509)	(27)	(2,564)	(1,294)	–	–	(8,617)
Transfer to/from assets held for sale	–	(363)	–	–	–	–	–	(363)
Transfer to/from investment property	217	2,553	–	–	–	–	–	2,770
Other transfers	–	(97)	–	–	1,269	(1,269)	–	(97)
Balance as at October 31, 2013	**$ 25,764**	**$ 150,632**	**$ 39,004**	**$ 34,436**	**$ 23,052**	**$ –**	**$ 975**	**$ 273,863**
Accumulated depreciation								
Balance as at October 31, 2011	$ –	$ 33,679	$ 14,749	$ 17,162	$ 10,650	$ 909	$ 196	$ 77,345
Depreciation	–	4,971	2,909	3,905	2,528	254	129	14,696
Disposals	–	(692)	(160)	(1,946)	(2,989)	–	–	(5,787)
Transfer to/from assets held for sale	–	(620)	–	–	–	–	–	(620)
Other transfers	–	–	–	37	(30)	–	–	7
Balance as at October 31, 2012	–	37,338	17,498	19,158	10,159	1,163	325	85,641
Depreciation	–	4,987	2,842	3,605	2,590	106	129	14,259
Disposals	–	(931)	(25)	(2,535)	(1,277)	–	–	(4,768)
Transfer to/from assets held for sale	–	(97)	–	–	–	–	–	(97)
Transfer to/from investment property	–	63	–	–	–	–	–	63
Other transfers	–	(48)	–	5	1,269	(1,269)	–	(43)
Balance as at October 31, 2013	$ –	$ 41,312	$ 20,315	$ 20,233	$ 12,741	$ –	$ 454	$ 95,055
Net Book Value								
At October 31, 2012	25,324	113,296	18,649	16,395	7,478	106	650	181,898
At October 31, 2013	**25,764**	**109,320**	**18,689**	**14,203**	**10,311**	**–**	**521**	**178,808**

(Canadian $ thousands, except per share amounts)

13. INVESTMENT PROPERTY

	Land	Buildings	Total
Cost			
Balance as at October 31, 2011	$ 1,776	$ 13,054	$ 14,830
Balance as at October 31, 2012	1,776	13,054	14,830
Transfer to/from property and equipment	(217)	(2,553)	(2,770)
Other transfers	–	(77)	(77)
Balance as at October 31, 2013	$ 1,559	$ 10,424	$ 11,983
Accumulated depreciation			
Balance as at October 31, 2011	$ –	$ 4,103	$ 4,103
Depreciation	–	322	322
Balance as at October 31, 2012	–	4,425	4,425
Depreciation	–	294	294
Transfer to/from property and equipment	–	(63)	(63)
Other transfers	–	(77)	(77)
Balance as at October 31, 2013	**$ –**	**$4,579**	**$ 4,579**
Net Book Value			
At October 31, 2012	1,776	8,629	10,405
At October 31, 2013	**1,559**	**5,845**	**7,404**

The fair value of investment property held at October 31, 2013 was $14,199 (October 31, 2012 $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	**October 31 2013**	October 31 2012
Rental income	**$ 1,293**	$ 1,403
Direct operating expense from property generating rental income	**551**	656
Total	**$ 742**	$ 747

Future rental payments receivable are as follows:

	October 31 2013	October 31 2012
Less than 1 year	**$ 1,033**	$ 1,415
Between 1 and 5 years	**2,132**	2,851
More than 5 years	**496**	1,114
Total	**$ 3,661**	$ 5,380

(Canadian $ thousands, except per share amounts)

14. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

Derivative Financial Assets		As at October 31 2013		As at October 31 2012
Equity-linked options	$	**7,585**	$	7,359
Embedded purchase option		**17,391**		14,948
Total	$	**24,976**	$	22,307

Derivative Financial Liabilities				
Embedded derivatives	$	**7,546**	$	7,732
Interest rate swaps and cap options		**1**		–
Total	$	**7,547**	$	7,732

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 2013		As at October 31 2012
Interest rate swaps receive floating, pay fixed	$	–	$	–	$	**2,595**	$	**2,595**	$	10,946
Interest rate cap options		–		–		–		–		50,000
Equity-linked options		–		**16,931**		**64,252**		**81,183**		86,441
Total	$	–	$	**16,931**	$	**66,847**	$	**83,778**	$	147,387

Embedded Derivatives

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

Interest Rate Swaps and Interest Rate Cap Options

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

Equity-Linked Options

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

Embedded purchase option

The Credit Union entered into an arrangement with a third party, where the third party acts as an agent to offer credit cards to its members. The agreement lasts for three years and renews automatically unless either party provides notice to terminate. The agreement contains an option for the Credit Union to acquire the underlying consumer loans associated with the credit cards. The exercise price is linked to the book value of the loans and notice of intent to exercise the option must be provided one year prior to the termination of the agreement. The current agreement is due to renew in September 2015.

(Canadian $ thousands, except per share amounts)

15. INVESTMENTS IN ASSOCIATES

	As at October 31 2013	As at October 31 2012
Alberta Central	$ 151,957	$ 150,103
Crelogix	722	594
Total	$ 152,679	$ 150,697

Ownership	As at October 31 2013	As at October 31 2012
Alberta Central	57.7%	56.4%
Crelogix	32.1%	35.9%

Financial Information for Associates	As at October 31 2013	As at October 31 2012
Alberta Central		
Assets	$ 2,469,034	$ 2,722,441
Liabilities	2,197,609	2,449,264
Revenues	34,613	29,366
Income before distributions	34,249	28,263
Crelogix		
Assets	$ 13,893	$ 11,690
Liabilities	13,977	12,860
Revenues	10,406	7,223
Net income (loss)	259	(303)

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.

During 2013, the Credit Union bought $9,500 in Alberta Central shares (2012 – $4,500) and received a distribution of $29,056 (2012 – $2,115).

Included in share of profits from associates for 2013 is net income of $128 (2012 net loss of $(245)) from Crelogix's investment and net income of $21,410 (2012 – $16,579) from Alberta Central.

Refer to Note 33 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 as at October 31, 2011	$ 2,259	$ 21,338	$ 8,419	$ 32,016
Additions	39	440	16,334	16,813
Disposals	(198)	(886)	–	(1,084)
Impairment	–	–	(1,119)	(1,119)
Transfers	–	3,755	(3,675)	80
Balance as at October 31, 2012	2,100	24,647	19,959	46,706
Additions	305	147	17,916	18,368
Disposals	(50)	(57)	–	(107)
Impairment	–	–	(1,295)	(1,295)
Transfers	–	17	(17)	–
Balance as at October 31, 2013	**$ 2,355**	**$ 24,754**	**$ 36,563**	**$ 63,672**
Accumulated amortization and impairment				
Balance as at October 31, 2011	$ 1,972	$ 18,831	$ –	$ 20,803
Amortization	52	1,359	–	1,411
Disposals	(198)	(887)	–	(1,085)
Balance as at October 31, 2012	1,826	19,303	–	21,129
Amortization	35	1,656	–	1,691
Disposals	(50)	(57)	–	(107)
Balance as at October 31, 2013	**$ 1,811**	**$ 20,902**	**$ –**	**$ 22,713**
Net Book Value				
At October 31, 2012	274	5,344	19,959	25,577
At October 31, 2013	**544**	**3,852**	**36,563**	**40,959**

During our impairment testing review of softwares under development, we determined that a portion of those softwares will not be expected to be in use in the future. Consequently, an impairment was recorded by the Credit Union for the costs directly associated with computer software under development. The resulting loss was $1,295 for the year ended October 31, 2013 (2012 – $1,119) and was recorded in the consolidated statement of income and comprehensive income.

(Canadian $ thousands, except per share amounts)

17. INCOME TAXES

(a) Income tax expense

The significant components of tax expense included net income are:

Income Tax Expense		2013		2012
Current tax expense				
Based on current year taxable income	$	**21,237**	$	15,042
Adjustments for (over)/under provision in prior periods		**(380)**		–
Total		**20,857**		15,042
Deferred tax expense				
Origination and reversal of temporary differences		**(93)**		3,190
Increase in tax rate		**1,908**		–
		1,815		3,190
Total	$	**22,672**	$	18,232

(b) Reconciliation of effective tax rate:

		2013			2012	
Income before income taxes	$	**95,905**		$	81,396	
Income tax expense based on statutory rate		**20,648**	**21.53%**		17,093	21.00%
Effect on non-deductible expenses		**214**	**0.22%**		210	0.26%
Future tax rate change		**1,908**	**1.99%**		–	–
Adjustments in relation to prior years		–	–		499	0.61%
Other		**(98)**	**(0.10%)**		430	0.53%
Total income tax expense	$	**22,672**	**23.64%**	$	18,232	22.40%

(Canadian $ thousands, except per share amounts)

17. INCOME TAXES (CONTINUED)

(c) Deferred tax assets and liabilities

The movement in deferred tax assets and liabilities are:

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

	As at October 31 2011	Recognized in net income	Recognized in OCI	As at October 31 2012
Subsidiary deferred tax asset:				
Subsidiary Property and equipment	$ (40)	$ (10)	$ –	$ (50)
Subsidiary Non-capital losses	118	(8)	–	110
Total	78	(18)	–	60
Servus deferred tax liability:				
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
Net-capital losses	3	–	–	3
Total	(6,249)	(3,166)	(109)	(9,524)
Net Consolidated Deferred tax	$ (6,171)	$ (3,184)	$ (109)	$ (9,464)

(Canadian $ thousands, except per share amounts)

18. SECURITIZATIONS

The Credit Union periodically enters into asset transfer agreements with Central 1 Credit Union and other third parties which include securitization of residential mortgages.

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

The Credit Union has determined that an amount of $24,177 raised from securitzation transactions during the year should be accounted for as a secured borrowing as the Credit Union did not transfer substantially all of the risks and rewards of ownership, including principal prepayment, interest rate and credit risk of the mortgages in the securitization transaction. The carrying amount of the associated residential mortgages held as security is $17,630 (2012 – nil). As a result of the transaction, the Credit Union receives the net differential between the monthly interest receipts of the mortgages and the interest expense on the borrowings.

19. MEMBERS' DEPOSITS

	As at October 31 2013	As at October 31 2012
Demand accounts	**$ 5,986,588**	$ 5,734,815
Term deposits	**3,984,088**	3,525,120
Registered plans	**1,836,965**	1,728,942
Other deposits	**9,201**	8,010
	11,816,842	10,996,887
Accrued interest	**54,040**	50,142
Total	**$ 11,870,882**	$ 11,047,029

20. 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.

(Canadian $ thousands, except per share amounts)

20. BORROWINGS (CONTINUED)

As at October 31, 2013, the Credit Union had no outstanding balance and no accrued interest owing to Alberta Central on outstanding term loans and line of credit (2012 – nil).

Caisse Centrale Desjardins

The Credit Union also has a credit facility with Caisse Central Desjardins ("CCD"). The facility is a 364 day 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, 2013, the Credit Union no outstanding balance and no accrued interest owing to Caisse Centrale Desjardins on outstanding loans payable and lines of credit (2012 – nil).

21. TRADE PAYABLES AND OTHER LIABILITIES

	As at October 31 2013	As at October 31 2012
Cheques and other items in transit	$ 43,554	$ 41,554
Accounts payable	62,117	60,376
Dividend and patronage to members	27,420	27,150
Deferred income	3,747	2,665
Mortgage securitization liabilities	–	18
Obligations under finance lease	–	115
Premium and servicing liability	1	262
Total	$ 136,839	$ 132,140

22. PROVISIONS

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

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

(Canadian $ thousands, except per share amounts)

22. PROVISIONS (CONTINUED)

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.

23. EMPLOYEE BENEFITS

	2013	2012
Short-term employee benefits	**$ 170,064**	$ 159,721
Post-employement benefits	**8,065**	8,185
Termination benefits	**159**	107
Total	**$ 178,288**	$ 168,013

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

Plan Cost	**Pension Plans**	**Other Benefit Plans**	**2013**	2012
Net benefit plan cost in net income				
Current service cost	**$ 160**	**$ 33**	**$ 193**	$ 195
Interest cost	**167**	**65**	**232**	249
Total	**327**	**98**	**425**	444
Defined contribution registered retirement savings plan – Credit Union contributions	**8,099**	**–**	**8,099**	8,073
Total	**8,426**	**98**	**8,524**	8,517
Actuarial losses recognized in other comprehensive income	**7**	**139**	**146**	429
Total	**$ 8,433**	**$ 237**	**$ 8,670**	$ 8,946

Accrued benefit obligation and liability	**Pension Plans**	**Other Benefit Plans**	**As at October 31 2013**	As at October 31 2012
Unfunded accrued benefit obligation				
Balance, beginning of year	**$ 4,601**	**$ 2,969**	**$ 7,570**	$ 7,120
Current service cost	**160**	**33**	**193**	195
Interest cost	**167**	**65**	**232**	249
Benefits paid	**(297)**	**(132)**	**(429)**	(514)
Actuarial (gain) loss	**(256)**	**(27)**	**(283)**	520
Balance, end of year	**$ 4,375**	**$ 2,908**	**$ 7,283**	$ 7,570

(Canadian $ thousands, except per share amounts)

23. EMPLOYEE BENEFITS (CONTINUED)

	Pension Plans	Other Benefit Plans	2013	2012
Included in personnel expense				
Current service cost	$ **160**	$ **33**	$ **193**	$ 195
Interest cost	**167**	**65**	**232**	249
Benefits paid	**(297)**	**(132)**	**(429)**	(514)
Total	$ **30**	$ **(34)**	$ **(4)**	$ (70)

	Pension Plans		Other Benefit Plans	
	2013	2012	**2013**	2012
Discount rate	**3.49% to 7%**	3.24% to 7.0%	**2.5%**	2.2%
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, 2013 are:

Effect on:	1% increase	1% decrease
Net benefit cost	$ 1	$ 4
Accrued benefit obligation	53	105

Experience adjustments	**2013**	2012
Accrued benefit obligation and plan deficit	$ **7,283**	$ 7,570
Experience (gain) loss	**(283)**	520
Defined benefit contributions expected to be paid in 2014		$ 428

24. SHARE CAPITAL

Common Shares

Common shares have the following characteristics:

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

Series A to G Investment Shares

Series A to G Investment Shares have the following characteristics:

a) No par value;
b) No voting rights;
c) Non-assessable;

(Canadian $ thousands, except per share amounts)

24. SHARE CAPITAL (CONTINUED)

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

	Issued and outstanding as at October 31 2011	Issued	Redeemed	Dividends declared	Issued and outstanding as at October 31 2012
Common shares total	$ 358,079	$ 37,088	$ (16,463)	$ 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	$ 37,088	$ (18,359)	$ 19,043	$ 502,199

(Canadian $ thousands, except per share amounts)

24. SHARE CAPTIAL (CONTINUED)

2013	Common Shares Equity Portion	Investment Shares Equity Portion	Total Equity	Investment Shares Liability Portion
As at October 31, 2012	**$ 393,027**	**$ 109,172**	**$ 502,199**	**$ 471**
Issued	**25,533**	**–**	**25,533**	**–**
Redeemed	**(15,899)**	**(3,047)**	**(18,946)**	**(22)**
Share dividend declared	**15,500**	**4,723**	**20,223**	**–**
As at October 31, 2013	**$ 418,161**	**$ 110,848**	**$ 529,009**	**$ 449**

2012				
As at October 31, 2011	$ 358,079	$106,348	$ 464,427	$ 471
Issued	37,088	–	37,088	–
Redeemed	(16,463)	(1,896)	(18,359)	–
Share dividends declared	14,323	4,720	19,043	–
As at October 31, 2012	$ 393,027	$ 109,172	$ 502,199	$ 471

Total patronage and dividends paid in cash or shares	**2013**	2012
Patronage to members in cash	**$ 26,655**	$ 26,488
Common share dividend	**15,500**	14,323
Investment share dividend	**4,723**	4,720
Investment share dividend in cash	**588**	592
	$ 47,466	$ 46,123

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 rate (%)	**2013**	2012
Common share	**4.00%**	4.00%
Investment share	**5.00%**	5.00%

25. INVESTMENT INCOME

	2013	2012
Investment income on loans and receivables other than members' loans	**$ 8,480**	$ 8,697
Unrealized gain (loss) on derivative instruments	**424**	(794)
Realized (loss) on derivative instruments	**(4)**	(5)
Total	**$ 8,900**	$ 7,898

(Canadian $ thousands, except per share amounts)

26. OTHER INTEREST EXPENSE

		2013		2012
Interest expense on Alberta Central term loans	$	**585**	$	194
Interest expense on line of credit		**1,284**		363
Interest expense on secured borrowing		**211**		–
Total	$	**2,080**	$	557

27. OTHER INCOME

		2013		2012
Commissions and fees	$	**44,895**	$	39,509
Account service charges		**26,668**		26,345
Foreign exchange income		**4,119**		4,217
Operating lease income		**1,323**		1,439
Other		**3,737**		3,128
Total	$	**80,742**	$	74,638

28. CAPITAL MANAGEMENT

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

Objectives, Policy and Processes

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

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

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

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

(Canadian $ thousands, except per share amounts)

28. CAPITAL MANAGEMENT (CONTINUED)

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

Regulatory Capital

Capital requirements are established and regulated by the Corporation using a risk weighted and total asset approach. Total capital consists of both primary and secondary capital. For the year ended October 31, 2013, 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 assets.

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

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

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

As at October 31, 2013 and 2012, the Credit Union's capital ratio was greater than the minimum requirement. The following components of regulatory capital were reported:

	2013	2012
Primary Capital:		
Adjusted retained earnings[1]	**$ 482,538**	$ 420,970
Common shares	**418,161**	393,027
Investment shares	**111,297**	109,643
Total primary capital	**1,011,996**	923,640
Secondary Capital:		
Collective allowance for credit losses	**7,065**	5,779
Deferred income tax liabilities	**11,359**	9,524
Total secondary capital	**18,424**	15,303
Less Deductions:		
Intangibles	**(40,959)**	(25,577)
Deferred income tax asset	**(19)**	(60)
Total Capital Available	**$ 989,442**	$ 913,306
Total capital as % of risk weighted assets	**13.02%**	13.32%
Total capital as % of assets	**7.54%**	7.49%

[1)] *Net of derivative assets and net share of associates assets.*

29. GUARANTEES, COMMITMENTS AND CONTINGENT LIABILITIES

Guarantees

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

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

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

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

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

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

Standby Letters of Credit and Letters of Guarantee

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

	As at October 31 2013	As at October 31 2012
Standby letters of credit	**$ 89,949**	$ 85,873

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)

29. 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.

Commitments to extend credit	**As at October 31 2013**	As at October 31 2012
Original term to maturity of one year or less	**$ 2,491,616**	$ 2,146,895
Original term to maturity of more than one year	**346,040**	313,994
Total	**$ 2,837,656**	$ 2,460,889

Property and equipment and intangible assets expenditure commitments	**As at October 31 2013**	As at October 31 2012
Total contractual amount	**$ 3,060**	$ 1,742
Cost to date	**2,713**	957
Remaining commitment	**$ 347**	$ 785

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	**$ 7,559**	**$ 4,508**	**$ 12,067**
Between 1 and 5 years	**27,532**	**3,120**	**30,652**
After 5 years	**13,200**	**875**	**14,075**
Total	**$ 48,291**	**$ 8,503**	**$ 56,794**

*excludes expenditures on banking system

Commitment to expenditures on banking system	**As at October 31 2013**	As at October 31 2012
Within 1 year	**$ 4,364**	$ 7,437
Between 1 and 5 years	**1,672**	2,046
After 5 years	**–**	117
Total	**$ 6,036**	$ 9,600

(Canadian $ thousands, except per share amounts)

30. 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.

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

	2012		
	Book Value	Fair Value	Fair value difference
Financial Instrument Assets			
Cash and cash equivalents (a)	$ 177,021	$ 177,021	$ –
Interest bearing deposits with financial institutions	911,257	911,257	–
Assets at amortized cost	2,066	2,066	–
Assets at fair value through profit or loss	23,285	23,285	–
Members' loans (b,c)	10,677,621	10,788,363	110,742
Other (a,d)	6,493	6,493	–
	11,797,743	11,908,485	110,742
Liabilities			
Members' deposits (b,c)	11,047,029	11,081,876	34,847
Trade payables and other liabilities (a,d)	150,601	150,601	–
	$ 11,197,630	$ 11,232,477	$ 34,847

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.

(Canadian $ thousands, except per share amounts)

30. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

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

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

c) The estimated fair value of fixed rate member loans and fixed rate member deposits is determined by discounting the expected future cash flows of these loans and deposits based on yield curves, of financial assets and liabilities with similar terms and credit risks.

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

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.

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

As at October 31, 2012	Level 1	Level 2	Level 3	Total
Derivative assets	$ –	$ 7,359	$ –	$ 7,359
Embedded derivative assets	–	–	14,948	14,948
Retained right to future excess spread	–	–	978	978
Financial assets held at fair value	$ –	$ 7,359	$ 15,926	$ 23,285
Member shares	–	(471)	–	(471)
Embedded derivative liabilities	–	(7,732)	–	(7,732)
Financial liabilities held at fair value	$ –	$ (8,203)	$ –	$ (8,203)

30. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

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

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

31. 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;

(Canadian $ thousands, except per share amounts)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

- Credit risk documentation focuses on documentation and administration; and
- Credit review and deterioration includes monitoring and review.

Market risk

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

Risk Measurement

The Credit Union's risk position is measured based on rates charged to members. The Treasury Department manages day-to-day market risk within approved policies and reports on a regular basis to management's Asset Liability Committee ("ALCO") to ensure policy compliance. Management provides quarterly reports on these matters to the Board's Audit Finance Committee. Tools to measure this risk include: gap analysis, which shows the sensitivity between interest sensitive assets and interest sensitive liabilities; and income sensitivity analysis (Note 32).

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, 2012, 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.

		2013		2012
Before tax impact of:				
1% increase in rates	**$**	**3,766**	$	3,339
1% decrease in rates	**$**	**(19,594)**	$	(15,501)

Foreign exchange risk

Foreign exchange risk is the risk that the fair value of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign exchange risks exist mainly as a result of the existence of financial assets, derivatives and financial liabilities denominated in foreign currencies. The risk associated with changing foreign currency values is managed under the Credit Union's foreign exchange risk management policy. As at October 31, 2013, the Credit Union's net difference between assets and liabilities in foreign currencies was $306 (2012 - $876).

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk

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

Risk Measurement

The assessment of the Credit Union's liquidity position reflects management's estimates, assumptions and 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 2013, the Credit Union's liquidity as at October 31, 2013 exceeds the minimum requirement.

(Canadian $ thousands, except per share amounts)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

Key features of liquidity management include:

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

32. INTEREST RATE SENSITIVITY

The principal values of interest rate sensitive assets and liabilities and the notional amount of swaps and other derivative financial instruments used to manage interest rate risk are presented below in the periods in which they next reprice to market rates or mature. These are summed to show the interest rate sensitivity gap. Accrued interest amounts are included in the non-interest sensitive section. The average rates presented are weighted average effective yield based on the maturity dates. Additional information on how the credit union uses derivative financial instruments to manage interest rate risk is included in note 14. Information on how the credit union manages interest rate risk is included in note 31.

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

(Canadian $ thousands, except per share amounts)

32. INTEREST RATE SENSITIVITY (CONTINUED)

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 (%)	0.00%	1.01%	1.12%	0.35%	5.82%	–	1.02%
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	266,784
	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 Statements 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	10,946	(421)	–	–	(10,525)	–	–
Net 2012 Position	$ 27,948	$ 209,133	$ (247,516)	$ (470,676)	$ 2,187,656	$ (1,706,545)	$ –

33. 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 All Source Mortgages Ltd., Home Start Financial 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.

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

(Canadian $ thousands, except per share amounts)

33. RELATED PARTY DISCLOSURES (CONTINUED)

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 2013**	As at October 31 2012
Cash	**$ 117,891**	$ 149,846
Term deposits	**801,205**	909,286
Accrued interest on term deposits	**708**	1,956
Dividends receivable	**–**	2,115

	2013	2012
Interest income term deposits	**$ 8,479**	$ 8,685
Share of profits from associates	**21,410**	16,579
Interest expense on term loans	**1,869**	557
Data processing, memberships fees and other	**15,295**	18,295

Crelogix

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

Crelogix	**As at October 31 2013**	As at October 31 2012
Loans purchased	**$ 18,512**	$ 11,468

	2013	2012
Interest income – loans	**$ 1,847**	$ 1,808
Share of profits (loss) from associates	**128**	(245)

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 and Corporate Services Officer and Chief Brand & Corporate Social Responsibility Officer.

(Canadian $ thousands, except per share amounts)

33. RELATED PARTY DISCLOSURES (CONTINUED)

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

	Salary & Bonus	Benefits	Post employment benefits	2012
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 and Corporate Services Officer	346	27	23	396
Chief Brand & Corporate Social Responsibility Officer	301	25	21	347
	$ 3,031	$ 224	$ 326	$ 3,581

Directors' compensation and expenses	**2013**	2012
Compensation to directors	**$ 654**	$ 678
Expenses incurred by directors	**51**	51
Total	**$ 705**	$ 729

Compensation to directors ranged from $19 (2012 – $19) to $65 (2012 – $72) with an average of $47 (2012 – $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.

(Canadian $ thousands, except per share amounts)

33. RELATED PARTY DISCLOSURES (CONTINUED)

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

Members' loans	**As at October 31 2013**	As at October 31 2012
Key management personnel	**$ 1,265**	$ 2,128
Board of directors	**3,015**	4,648
Other employees	**348,643**	356,640
Total	**$ 352,923**	$ 363,416

Members' deposits	**As at October 31 2013**	As at October 31 2012
Key management personnel	**$ 5,469**	$ 6,537
Board of directors	**3,220**	3,584
Other employees	**158,995**	183,986
Total	**$ 167,684**	$ 194,107

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.

34. BUSINESS COMBINATIONS

There were no business combinations in 2013.

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.

	2012
Cash proceeds paid	$ (108)
Cash proceeds received	421
Net cash proceeds received	$ 313

	Fair value Recognized on Acquistion
Identifiable assets acquired and liabilities assumed:	
Member loans	108
Member deposits	(418)
Common shares	(3)
Total net identifiable assets and liabilities	$ (313)
Goodwill	$ –

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