



**Management's Discussion and Analysis
Consolidated Financial Statements**

For the year ended October 31, 2016

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SERVUS CREDIT UNION LTD.
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Servus Credit Union Ltd.'s (Servus or the credit union) 2016 annual report consists of Management's Discussion and Analysis and the Consolidated Financial Statements for the year ended October 31, 2016, which details our credit union's financial and operating results. This document is available upon request or online at servus.ca.

Note regarding forward-looking statements:

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

Member banking

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

Over 380,000 members are served by close to 2,200 hard-working and dedicated Servus employees from more than 100 locations in 59 communities across Alberta. Our offices in Red Deer, Lloydminster and Edmonton support the business and administrative needs of our members and employees.

Servus is a co-operative financial institution committed to:

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

These principles serve as a guide for the work that's done within the credit union and in our communities.

Our day-to-day operations are overseen by our executive leadership team:

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

Vision, Mission, Values, Brand Pillars

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

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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

Our Brand Pillars

Our brand pillars are the expression of our credit union's image and values.

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

Recognizing our Credit Union

Servus and our employees were honoured to receive a number of awards this year. Servus believes strongly in the work it does and appreciates the acknowledgements. During 2016, Servus:

- Received three awards at the Marketing Association of Credit Unions' (MACU) annual Achievement in Marketing Excellence (AIME) Awards Gala Dinner on May 30 in Ottawa. Servus won the Coordinated Campaign AIME award for our brand refresh campaign, the Best Community Event AIME award for Servus Circle Day on May 12, 2015, and an AIM (second place) award in the Television category for our Plinko brand refresh TV commercial.
- Recognized on the *Alberta Venture 250* list again as Alberta's 65th largest company
- Re-qualified as a member of the Platinum Club of Canada's 50 Best Managed Companies

Servus is most proud that credit unions were first again in Customer Service Excellence. Every year, Ipsos Reid* asks Canadians about their banking experience and, for the 12th year in a row, credit unions outperformed other Canadian financial institutions when it came to providing great service. For us, it's always about putting our members first.

Also for the 12th year in a row, credit unions were first in Branch Service Excellence.

Credit unions continue to be the top performers when it comes to serving small businesses' overall financial needs, according to the 2016 report from the Canadian Federation of Independence Business (CFIB). The report is based on a survey of over 11,000 small business owners and focused on four key areas: financing, fees, account manager experience and service. Credit unions were rated the best institutions in all four categories.

** Ipsos 2016 Best Banking Awards are based on ongoing quarterly Customer Service Index (CSI) survey results. Sample size for the total 2016 CSI program year ended with the August 2016 survey wave was 47,305 completed surveys yielding 67,678 financial institution ratings nationally.*

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2016: In Review

The year was a challenging one for many people and businesses in Alberta. While it didn't result in outstanding income for the credit union, it unfolded mostly as expected and produced some solid results.

Servus anticipated the challenges and planned accordingly. As a co-operative, Servus is able to take a longer view of balancing the needs of members, communities, employees and financial performance. Servus has been working for a number of years to prudently and gradually reduce costs to help offset lower revenues and higher loan losses. Unlike other financial institutions, the credit union isn't pressured to maximize profits and can use a more considerate and measured approach.

The slump in net interest income (the difference between what's earned on loans and paid for deposits) was due to the ongoing low interest rate environment and the increased competition from other financial institutions. To continue giving members expert advice and services to enhance their financial well-being, Servus's commitment to sound, sustainable management and financial practices was evident in prudent cost control and loan growth.

The credit union also contributed to Alberta's economy through loans, profit sharing to members, income taxes and salaries paid, goods and services that the credit union purchased and sponsorships and donations to not-for-profit organizations. The total contribution back to the economy was \$3.7 billion.

Late in the year, a less expensive loan product was unveiled to give members and Albertans an attractive credit option and help them grow their financial worth with our expert advice and products. The Fast Forward Small Loan is an alternative to payday loans and supports the Government of Alberta's mandate to protect vulnerable Albertans from excessive borrowing costs.

The Servus Profit Share® program paid back \$48.1 to our members. This is evidence of our successful financial performance despite the economy and our commitment to help stimulate the Alberta economy and Albertans when really needed.

Key performance drivers

Another of Servus's significant accomplishments in 2016 was achieving every one of our Balanced Scorecard performance goals.

Objective	Measure	2016 Target	2016 Result	2015 Result
The value of being a member is clear and compelling	Member Satisfaction ¹	76% (+/- 2.5%)	83.1%	76.2%
Servus members as advocates	Member Loyalty Index ¹	71% (+/- 2.5%)	73.9%	71.2%
High level employee engagement	Employee engagement	77% (+/- 1.0%)	80%	77%
Positive Leadership Climate	Leadership Climate Index	66% (+/- 1.0%)	72%	NA
Financial growth	Operating income ²	\$115.8 million	\$121.1 million	\$121.7 million
Reduced dependency on interest based income	Other income growth as a percentage of average assets ²	0.597%	0.606%	0.602%
Leveraging assets profitably	Return on assets ²	0.798%	0.835%	0.870%
Business process improvements for effectiveness and efficiency	Operating efficiency ratio ^{2,3}	68.571%	65.582%	68.582%
	Operating expenses as a percentage of average assets ²	2.130%	2.019%	2.167%

¹ For SIPP purposes, Servus uses a range of +/-2.5% around the reported number.

² Results are before patronage, income taxes, employee incentives and extraordinary items.

³ The operating efficiency ratio is a ratio of expenses to revenues. In essence, it measures how much the credit union spent to earn a dollar of revenue. A lower percentage reflects better results.

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Financial Highlights

Balance Sheet

Servus's loan growth of \$521.3 million (4.1%) is healthy considering the challenges of the economy in 2016. It shows that there is still plenty of good business in Alberta and also that there is competition for each loan.

Deposit growth of \$60.4 million (0.5%) was low and required loan growth to be funded through secured borrowing, which increased by \$311.8 million. The focus for 2017 will be to fund loan growth from deposits, which balances members' needs for both saving and borrowing and supports the long-term sustainability of the credit union.

Members continue to take advantage of the expert wealth planning Servus offers. Total assets under administration have grown to \$2.9 billion, an increase of 13.9% over 2015.

Servus's retained earnings (the amount the credit union keeps for future needs after paying taxes, patronage and dividends) grew by \$55.2 million (8.6%). The credit union has continued to improve its financial stability through this recessionary period and gave members \$48.1 in Profit Share.

	2016	2015	2016 Internal Policy Requirement	2016 Minimum Supervisory Requirement
Capital to assets	8.6%	8.27%	4%	4%
Retained earnings to assets	4.7%	4.5%	4.0%	N/A
Capital as a % of risk weighted assets	15.05%	14.55%	13.5%	11.5%

Income Statement

Servus remained profitable by using liquid assets effectively, maintaining a commitment to managing costs and making returns on member service investments like Servus Wealth Strategies.

Other income increased by \$0.7 million (0.8%) and came, in large part, from increases in service fees. Operational costs have increased, and Servus increased some fees to maintain the high level of service our members expect. Income from fee increases helped support the mobile banking enhancements that Servus launched in 2016. Members invested their money with Servus Wealth Strategies, which added to the income numbers. Their investments contributed to a \$2.2 million, or 11.7%, increase over 2015.

The provision for credit losses increased more than was expected but ended with a reasonable \$31.5 million of losses, which represents 0.24% of the loans outstanding. Despite the reduced net interest income and increased loan loss provisions, net income was down only \$6.2 million (8.0%) compared to 2015.

Management and Servus's Board of Directors feel that managing the credit union with the entire economic cycle in mind is better than pushing for immediate results that may not be reasonable given the challenges. Income dropping 8.0% in the worst recession in 30 years is within the bounds of tolerability and the credit union is proud to have kept this decline so small given the increase in loan losses.

Operating Expenses

Total operating expenses were down \$5.6 million (1.8%) from the previous year. Small increases in occupancy and consulting costs were offset by significant reductions in administrative costs (courier, meals and entertainment, stationery and ATM servicing fees) and amortization. Total personnel costs remained essentially flat, increasing only 0.3%. This shows Servus's ongoing commitment to improving efficiency and effectiveness.

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Operating and Net Income

Servus's focus on members, communities, employees and the long-term sustainability of the credit union has made the credit union financially sound. Servus believes that pushing too hard to drive higher income during an economic decline is not necessary for a co-operative and can result in a worse outcome for the credit union, members and employees. The credit union's co-operative business model allows Servus to be prudent and patient. Management believes this was accomplished in the 2016 financial results. Income of \$71.4 million is considerable given the economic climate. Members can expect a similar approach in 2017 and until Alberta returns to a cycle of longer-term economic growth.

Servus believes that pushing too hard to drive higher income during an economic decline is not necessary for a co-operative and can result in a worse outcome for the credit union, members, Albertans and employees. The credit union's co-operative business model allows Servus to be prudent and patient. Management believes this was accomplished in the 2016 financial results. Members can expect a similar approach in 2017 and until Alberta returns to a cycle of longer-term economic growth.

Helping Our Communities

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

This past year, that spirit of caring was particularly evident in our response to the Fort McMurray wildfires since Servus stepped forward with a \$100,000 contribution to the Red Cross Wildfire Relief Fund. Employees volunteered their time at emergency centers and contributed to the Wood Buffalo Food Bank to ensure it was prepared to accept clients as they returned to the city. The credit union also helped members who were involved in the wildfires and others who suffered job loss with financial supports such as loans and extensions of credit.

Social impact

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

- Introduced the Fast Forward Small Loan
- Supported over 1,400 community organizations with \$1.9 million in financial contributions
- Provided \$16,000 in scholarships at Alberta post-secondary schools
- Participated in the Financial Empowerment Collaborative, a financial institution and United Way-led partnership in Edmonton and Calgary that addressed poverty and the financial stress of vulnerable populations
- Hosted credit union managers from Malawi to support the development of credit union and co-operative development internationally
- Offered initiatives aimed at raising employee awareness of seniors' financial abuse, mental health, bullying and other causes
- Used a variety of data and information security safeguards to protect personal information against loss or theft (e.g., restricted access to offices and data centers and a host of digital security measures)
- Provided members with information to counteract fraudulent attempts to gain access to their funds

To help families save money, Servus supported free access to recreation and cultural facilities, including:

- Nitehawk Recreation Area in Grande Prairie
- Alberta Sports Hall of Fame & Museum in Red Deer
- Glenbow Museum in Calgary
- Edmonton Ski Club
- Telus World of Science in Edmonton
- Art Gallery of Alberta in Edmonton

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Servus contributed to many other community initiatives throughout Alberta including:

- \$50,000 to the rebuilding of the Barrhead Aquatic Centre, which will give the community better swimming, family and fitness facilities.
- Hosted the second annual Servus Family Free Skate at the Canalta Centre.
- Agreed to a second 10-year agreement with the Lethbridge Soccer Association for naming of the Servus Sports Centre.
- Servus has sponsored various skating venues throughout Lloydminster to give free public skating opportunities to the community.

Environmental Impact

Over the past several years, Servus has taken a number of steps to improve its environmental performance, reduce consumption of materials, purchase sustainable products and recycle wastes. This effort includes upgrading buildings and facilities to enhance energy efficiency, recycling paper and other wastes and introducing technology to reduce business travel for meetings.

Servus continues to become more environmentally responsible, contributing to overall ecological sustainability with a lower carbon footprint. Servus has identified key environmental impacts, measured them and set targets to improve. These key impacts are greenhouse gas emissions, energy and paper consumption, and materials consumption and waste. In 2016, Servus reduced its carbon footprint per member by 6.8% from 2015 and total GHG emissions by 6.6% over last year (exceeding our annual targets). Servus also reduced the total tonnes of paper used by 4% over 2015 and continues to recycle 100% of electronic waste (e.g., computers, monitors, laptops, cell phones, etc.).

The Outlook for 2017

With Alberta unemployment approaching 9% towards the end of the year, 2017 is expected to have many of the same challenges as 2016. While some economists are forecasting a fairly large increase in GDP growth in 2017, Servus expects that economic growth will be relatively modest for most of the year. The excess supply of oil and the softer demand for it will likely keep prices from climbing significantly higher, which will limit economic growth as the price of oil struggles to reach \$60 on a reliable basis.

Looking to the end of 2017 and beyond, Servus is very optimistic about the Alberta economy. Business members are adjusting to the new economic realities, diversifying their operations and structuring to be profitable. Alberta's young population has an entrepreneurial spirit and is highly skilled and educated. Historically, Albertans have been able to adapt and rebuild even when oil prices were down, and Servus doesn't believe that economic recovery depends entirely on a rise in oil prices.

Housing prices will be an area to watch closely in 2017. With the recent changes to mortgage rules in Canada, less activity is expected as mortgage rates rise and purchasers experience more difficulty in qualifying for mortgages. This could lead to a mild decrease in housing values that could be magnified by Alberta's unemployment.

While the United States Federal Reserve is expected to increase its key interest rate in 2017, the same cannot be said for the Bank of Canada. The economies are on different paths; the U.S. economy has been building toward a stable recovery for the past few years, but the Canadian economy has been more tentative.

Servus does not believe that the Bank of Canada sees the same strength in our economy, and the credit union expects that Canadian interest rates will remain low. If U.S. interest rates rise and Canadian interest rates don't, Albertans could see further weakening of the Canadian dollar. On a positive note, more consumers may spend their money within the province since they are less likely to travel and spend in the United States. A weaker Canadian dollar does provide some lift to our economy.

Despite a slower Alberta economy in 2016, Servus was able to grow its lending book and expects to continue that trend in 2017. Servus's strong capital position allows it to take advantage of quality lending opportunities that are still available in the marketplace.

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Overall, 2017 will continue to provide a challenging operating environment for the financial services industry. Servus expects higher than average loan losses due to the ongoing economic climate. History shows that loan losses remain above average for approximately two years after an economic recovery takes hold.

Servus's net interest margin (the difference between what is earned on loans and paid for deposits) will continue to decline as rates stay low and market competition remains aggressive. Despite those areas of concern, the forecast is for overall financial results to hold up as Servus continues to align costs with the revenues the market is offering. Holding financial results steady through this environment is no small achievement.

Thanks to its co-operative structure, Servus believes that it can avoid the layoffs Canadians have seen at a number of other financial institutions and continues to make investments in the credit union and in Alberta's communities through 2017. Because of this and its solid capital base, Servus is well-positioned to expand its relationships with Albertans and take advantage of a strengthening economy.

Setting the Direction: 2017 – 2019 Strategic Plan

The operating environment was challenging in 2016 but Servus Credit Union continued to meet the challenges head on. The credit union operationalized and built on last year's successful foundational work that further enhanced internal cost management, established the value proposition to members, refined the corporate social responsibility strategy and enhanced members' lives by providing them with sound, advice-based products and services.

Servus continued to implement the foundational strategies of financial sustainability, long-term delivery, digital banking and leadership development. The implementation of these, along with the previously developed and implemented strategies will continue to help guide the business.

With the 2017 – 2019 strategic plan, Servus is ready to take the next step in its evolution. That evolution calls for the credit union to embrace a noble purpose: Shaping member financial fitness. It's through this purpose that Servus will achieve its vision and long-term success. To enable that success, the focus will be on two strategic priorities:

- **Member experience:** Aligned with key foundational corporate strategies and our brand pillar of tailored expert advice, member experience seeks to create a sustainable competitive advantage for Servus through the delivery of a differentiated member experience and the development of a member-centric culture.
- **Financial fitness:** Implement financial fitness as Servus's noble purpose and embed it within all corporate priorities and strategies to ensure the required behaviors, tools, products and services are implemented to achieve the desired outcomes.

Going forward, these priorities will underpin Servus's financial sustainability and help the credit union remain competitive in today's economic and low interest rate environment.

Balanced Scorecard

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

As an effective and comprehensive forward-looking tool, the balanced scorecard provides a clear understanding of what success looks like for Servus. The balanced scorecard shows progress in achieving the strategic business plan under the following categories:

Member Experience

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

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Employee Experience

We are proud that employees feel Servus provides a positive, safe, rewarding and engaging work environment.

We will continue to invest in our employees by engaging, developing and advancing them through on-the-job experience, career opportunities, and mentoring and leadership development programs.

Financial Performance

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

Business Processes

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

Governance and Credit Union Relations

Our Board of Directors governs with a focus on organization-wide policy and strategy, recognizes its responsibility and accountability to our member-owners and is committed to continuously improving effectiveness. As an organization, we are committed to being a leader in our industry and providing guidance within a strong credit union system provincially, nationally and internationally.

A Framework for Success

Corporate Governance

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

Board Mandate

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

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

Board Structure

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

There are three board committees and one ad-hoc committee:

Audit & Finance Committee

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

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Enterprise Risk Management Committee

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

Governance & Human Resources Committee

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

Nominating Committee

The Nominating Committee is an ad hoc committee struck annually to administer the Board election process for the full Board of Directors. It ceases to function once the elected directors are confirmed at the Annual General Meeting of Servus Credit Union.

Position Descriptions

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

Orientation and Education

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

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

Ethical Conduct

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

Nomination

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

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

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

Candidates must also undergo a criminal record check.

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

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Director Remuneration

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

Honorarium

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

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

Committee names:

- Audit & Finance (AFC)
- Enterprise Risk Management (ERM)
- Governance & Human Resources (GHR)
- Nominating Committee (NC)

Remuneration and Attendance November 1, 2015 – October 31, 2016

Director	Board Meetings*	Committee Name	Committee Meetings	Total Remuneration: Honorarium + per diem (includes CPP)
John Lamb (Board Chair)	11 of 11	Chair/Vice/CEO	10	\$69,360.96
		AFC	7	
		ERM	4	
		GHR	7	
		NC	1	
		CUCA briefing	2	
		Community Council	1	
		CUCA AGM (days)	3	
Penny Reeves (Vice Chair)	10 of 11	Chair/Vice/CEO	6	\$55,216.62
		AFC	5	
		ERM	6	
		Community Council	6	
		CUCA AGM (days)	3	
Alison Starke	11 of 11	AFC	2	\$59,998.06
		GHR (C)	10	
		NC	4	
		CUCA briefing	3	
		Community Council	1	
Amy Corrigan	11 of 11	AFC	4	\$61,357.39
		ERM (C)	6	
		GHR	1	
		NC	4	
		Community Council	1	
		CUCA AGM (days)	3	
Darcy Mykytyshyn	10 of 11	AFC	4	\$45,716.15
		ERM	2	
		CUCA AGM (days)	1	

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Dianne Brown	11 of 11	AFC	2	\$54,251.63
		ERM	2	
		GHR	6	
		Community Council	6	
		CUCA AGM (days)	3	
		CUDA (days)	1	
Doug Bristow (new in March 2016)	6 of 7	AFC	5	\$29,617.23
Doug Hastings	11 of 11	Chair/Vice/CEO	5	\$63,485.95
		AFC	2	
		GHR	10	
		NC	4	
		Community Council	1	
		CUCA AGM (days)	3	
Iris Evans	11 of 11	AFC	2	\$57,966.70
		GHR	10	
		NC	7	
		CUCA briefing	4	
		Community Council	3	
		CUCA AGM (days)	3	
		CUDA (days)	1.5	
Jon Holt	10 of 11	AFC	3	\$54,717.10
		ERM	4	
		GHR	4	
		NC	4	
		CUCA briefing	5	
		Community Council	4	
Ken Cameron	11 of 11	AFC	7	\$66,096.88
		ERM	4	
		GHR	4	
		NC	8	
		Community Council	6	
		CUCA AGM (days)	3	
Simon Neigum	11 of 11	AFC	8	\$62,320.05
		GHR	3	
		CUCA briefing	4	
		Community Council	3	
		CUCA AGM (days)	3	
Perry Dooley (retired March 2016)	4 of 4	AFC	3	\$21,137.38
		ERM	1	
		GHR	1	
		CUCA briefing	2	
		Community Council	1	

- Board meetings include Servus's Annual General Meeting, annual board planning session, joint meeting with the CUDGC board and ad hoc board teleconferences.
- Standing board committees include Audit & Finance, Governance & Human Resources, Enterprise Risk Management.
- The Nominating Committee is an ad hoc committee.
- The Board of Director chair is an ex officio member of all committees.
- Board members are assigned to one committee at the organizational meeting in March but can attend any committee meeting. Committee assignments can cross two fiscal years. One board member sits on the AFC and ERM committees as a crossover member.

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- The Nominating Committee members were selected in June 2016 and are not in the final year of their term. Candidate interviews were held October 31 – November 4 in addition to a candidate orientation meeting.
- (C) stands for committee chair. Because the chair may change in March of each year, more than one committee chair may appear in the table.
- AGM 2016 and AGM 2017 denote Servus's Board of Directors' representative on the management AGM Committee.
- Central briefing means the board member is on the Credit Union Central of Alberta's (CUCA) board and there may be overlap as appointments are made for the period April 1 to March 30.
- Chair/Vice Chair/CEO refers to briefing meetings.
- There are 34 community councils around the province.

Performance Evaluation

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

Board and Committee Meetings

The Board of Directors held 11 regular board meetings last year and a two-and-a-half-day planning session in April. In addition, the Audit & Finance Committee met eight times, the Enterprise Risk Management Committee met six times, and the Governance & Human Resources Committee met 10 times. The Nominating Committee is an ad-hoc committee that met four times in 2016 and four times in 2016. Additional ad-hoc committee meetings were held as required.

Directors participated in the following:

- Servus's Annual General Meeting in March 2016
- The Credit Union Central of Alberta Conference and Annual General Meeting in April 2016
- The World Credit Union Conference in July 2016

Risk Management

Servus has in place a risk management structure that enables it to adapt to changes in economic and operational environments. The following is an overview of this structure and the types of risk it's typically exposed to. (See Note 30 on Financial Risk Management in the 2016 Consolidated Financial Statements for more details.)

Enterprise Risk Management

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

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

Servus believes that effective enterprise risk management is a journey and not a destination. And the program continues to grow, evolve and adapt. The framework provides processes for identifying risks and assessing the likelihood of their occurrence and impact. The framework is also used to establish policies, procedures and controls to ensure that risk is managed within acceptable tolerances.

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

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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. Four management committees — the Asset Liability Committee, the Management Credit Committee, the Management Corporate Social Responsibility (CSR) Committee and the Management Risk Committee — identify, assign and monitor risks through their work. Ownership of key risks is delegated to the appropriate Executive Leadership Team member.



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

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

Servus's risk management framework has four cornerstones (see Figure 2). They are reviewed and updated to ensure consistency with risk-taking activities and relevance to 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

Policies, Strategies and Limits

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

Guidelines

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

Processes and Standards

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

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Measurement and Reporting

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

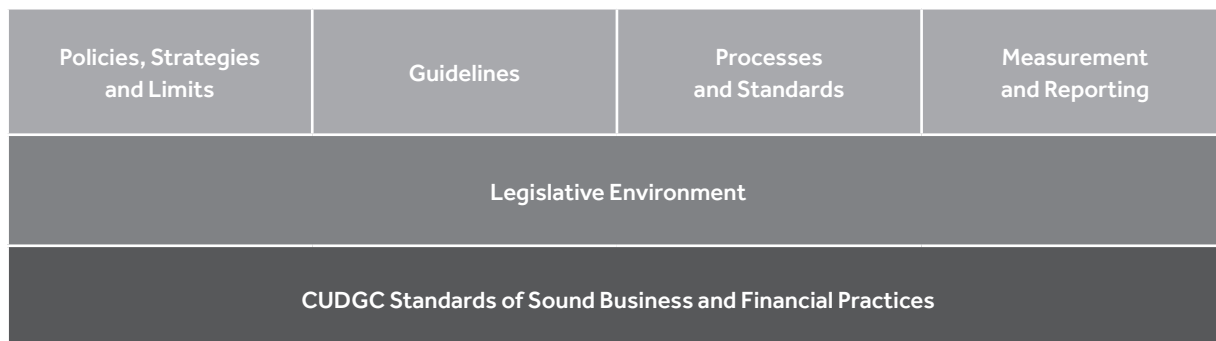


Figure 2: Servus Credit Union's Risk Management Framework

Types of Risk

Servus groups its major risks into 11 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. Risk is also managed through maximum limits on individual and connected accounts, participation in syndicated loans and minimum standards for loan quality. As well, Servus manages this risk through 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 from 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.

The team members are committed to the risk management policies and to promoting an ethical culture with clear communication to reinforce and guide operational risk-taking activities. Implementation of supporting policies and procedural controls includes (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.

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3. Liquidity Risk

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

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

Servus's liquidity policies include the measurement and forecast of cash flows, a stable base of core deposits from retail and commercial customers, limits on single deposits and sources of deposits and monitoring of wholesale demand and term deposits. The Servus liquidity management strategy includes daily monitoring of expected cash inflows and outflows, as well as 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, economic indicators, trends in member behaviour and competitive pricing, and uses this to 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 reviewing regular reports from the Management Risk Committee. In addition, the employee code of conduct, corporate values and CSR policy reinforce the standards and sound business practices that are essential to maintaining a strong 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 compliance departments assist them by providing advice and oversight. Again, the 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.

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7. Information Technology Risk

Information technology risk is the risk to Servus associated with the use of information technologies in the day-to-day operations of the credit union and is related to the performance, confidentiality, integrity and availability of our information, systems and infrastructure. Servus is extremely reliant on information technology for processing large volumes of transactions and storing large amounts of data. Despite a strong dedication to confronting cyber security, due to the complexity and high rate of change associated with information technology and cyber threats, Servus may not be able to fully mitigate against all such risks. Any significant disruption to information technology infrastructure could adversely affect the ability of Servus to conduct regular credit union operations. Servus maintains robust controls that guard the credit union and its members against cyber threats. These controls are regularly evaluated, updated and tested to ensure information technology risk is reduced to an acceptably low level.

8. Systemic Risk

Systemic risk is the risk that Servus becomes adversely impacted by systemic forces such as unfavourable changes to the combined economic, political, social, technological, legal and regulatory conditions in the market and that this will result in financial, reputation or other impairments or damages to Servus and its ability to serve its members. All of Servus' business activities are conducted in Alberta and, accordingly, its overall financial performance is significantly impacted by the general economic, political, social, legal and regulatory conditions that exist in the province with additional impacts potentially arising at the national and global levels. Servus attempts to diversify its business portfolios, products, activities and funding sources help mitigate the potential impacts from systemic risk as well as through robust strategic and capital planning processes.

9. Competitive Risk

Competitive forces have the potential to adversely affect Servus's results by inhibiting growth, reducing earnings or preventing Servus from achieving its strategic objectives. The competition, consisting of financial institutions and other market participants, in Alberta's financial services market is high. Member loyalty and retention can be influenced by a number of factors, including the availability of new and desirable technologies, products and services as well as service levels, pricing and reputation.

Emerging local and global competitive challenges coming from non-traditional competitors and emerging technologies is increasing, opaque and difficult to assess. Servus manages these risks through regular market assessments, emerging risk reviews and a strategic planning process as well as making strategic investment in technology and innovation, to meet members' expectations.

10. Strategic Risk

Strategic risk is the risk that Servus makes inappropriate strategic choices, or is unable to effectively implement its strategies or achieve its strategic objectives. To mitigate this risk Servus has adopted a comprehensive annual strategic planning process that includes board and executive leadership involvement, the use of detailed analysis such as environmental scans and SWOT analyses as well as integration with enterprise risk management processes and oversight. Responsibility for implementing strategic priorities is mandated to executive leaders with ongoing oversight from multiple management committees.

11. Emerging Risks

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

Servus continues to mature the enterprise risk management program to ensure that the business understands the environment in which it operates while monitoring key risk indicators to effectively manage risk.