

SERVUS CREDIT UNION LTD.
Interim Condensed Consolidated Financial Statements

For the three months ended January 31, 2024
(unaudited)

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(unaudited)

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SERVUS CREDIT UNION LTD.
Interim Condensed Consolidated Statement of Financial Position
(Canadian \$ thousands)
(unaudited)

	Notes	January 31 2024	October 31 2023
Assets			
Cash and cash equivalents ⁽¹⁾		\$ 76,809	\$ 86,134
Investments	3	1,520,859	1,493,841
Members' loans and leases	4	18,420,559	18,206,087
Income taxes receivable		-	736
Assets held for sale		8,528	6,127
Other assets		44,726	51,215
Property and equipment		132,480	133,512
Leased assets		66,400	62,734
Investment property		5,632	5,680
Derivative financial assets	7	7,856	4,538
Investment in associate		214,963	210,536
Intangible assets		49,320	52,794
Goodwill		19,173	19,173
Total assets		20,567,305	20,333,107
Liabilities			
Borrowings		-	8,334
Securitization liabilities		1,668,064	1,454,324
Members' deposits		16,749,823	16,662,604
Trade payables and other liabilities		190,301	235,968
Lease liabilities		76,354	72,319
Income taxes payable		3,766	-
Allowance for off balance sheet credit instruments	4,5	3,949	3,608
Derivative financial liabilities	7	20,211	31,559
Investment shares		475	451
Defined benefit plans		4,266	4,251
Deferred income tax liabilities		3,366	4,056
Total liabilities		18,720,575	18,477,474
Equity			
Share capital		654,428	690,461
Retained earnings		1,184,157	1,161,082
Accumulated other comprehensive income		8,145	4,090
Total equity		1,846,730	1,855,633
Total liabilities and equity		\$ 20,567,305	\$ 20,333,107

⁽¹⁾ Cash and cash equivalents includes restricted cash for the period ended January 31, 2024 of \$5,701 (2023 - \$6,278)

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

SERVUS CREDIT UNION LTD.
Interim Condensed Consolidated Statement of Income
(Canadian \$ thousands)
(unaudited)

Notes	Three months ended January 31 2024	Three months ended January 31 2023
Interest income		
	\$ 234,718	\$ 182,599
8	19,023	8,765
	253,741	191,364
Interest expense		
	116,024	68,890
	16,347	7,172
	132,371	76,062
Net interest income		
	121,370	115,302
	42,532	37,511
	(840)	(308)
	163,062	152,505
5	8,970	25,863
	154,092	126,642
Operating expenses		
	66,695	60,898
	30,860	30,217
	4,335	4,223
	2,938	2,810
	4,841	4,774
	1,374	1,327
	207	222
	3,859	2,752
	115,109	107,223
Income before patronage allocation to members and income taxes		
	38,983	19,419
	8,724	8,780
	30,259	10,639
	7,184	2,457
	\$ 23,075	\$ 8,182

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

SERVUS CREDIT UNION LTD.
Interim Condensed Consolidated Statement of Comprehensive Income
(Canadian \$ thousands)
(unaudited)

	Three months ended January 31 2024	Three months ended January 31 2023
Net income	\$ 23,075	\$ 8,182
Other comprehensive income for the year, net of tax:		
Items that will not be reclassified to profit or loss:		
<i>Share of other comprehensive income from associate</i>		
Actuarial gain on defined benefit pension plans ⁽¹⁾	116	310
Change in unrealized gain on equity securities at fair value through other comprehensive income securities ⁽²⁾	361	1,206
Items that may be reclassified subsequently to profit or loss:		
<i>Share of other comprehensive income (loss) from associate</i>		
Change in unrealized gain on debt securities at fair value through other comprehensive income securities ⁽³⁾	3,578	1,253
Reclassification adjustments for realized loss on debt securities ⁽⁴⁾	-	(48)
Total other comprehensive income	\$ 4,055	\$ 2,721
Total comprehensive income	\$ 27,130	\$ 10,903

⁽¹⁾ Net of income tax expense for the three months ended January 31, 2024 of \$35 (2023 - \$93)

⁽²⁾ Net of income tax expense for the three months ended January 31, 2024 of \$108 (2023 - \$360)

⁽³⁾ Net of income tax expense for the three months ended January 31, 2024 of \$1,068 (2023 - \$374)

⁽⁴⁾ Net of income tax (recovery) for the three months ended January 31, 2024 of \$0 (2023 - \$(14))

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

SERVUS CREDIT UNION LTD.
Interim Condensed Consolidated Statement of Changes in Equity
(Canadian \$ thousands)
(unaudited)

	Notes	Share Capital			Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
		Common Shares	Investment Shares	Total Share Capital			
Balance at October 31, 2022		\$ 579,893	\$ 121,382	\$ 701,275	\$ 1,106,390	\$ 6,518	\$ 1,814,183
Changes in equity							
Issues of share capital		1,662	-	1,662	-	-	1,662
Redemption of share capital		(32,995)	(3,772)	(36,767)	-	-	(36,767)
Net income		-	-	-	8,182	-	8,182
Share of other comprehensive loss from associate		-	-	-	-	2,721	2,721
Share of reclassification of accumulated other comprehensive income to retained earnings from associate ⁽¹⁾		-	-	-	5,044	(5,044)	-
Balance at January 31, 2023		\$ 548,560	\$ 117,610	\$ 666,170	\$ 1,119,616	\$ 4,195	\$ 1,789,981

	Notes	Share Capital			Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
		Common Shares	Investment Shares	Total Share Capital			
Balance at October 31, 2023		\$ 568,763	\$ 121,698	\$ 690,461	\$ 1,161,082	\$ 4,090	\$ 1,855,633
Changes in equity							
Issues of share capital		2,391	-	2,391	-	-	2,391
Redemption of share capital		(33,706)	(4,718)	(38,424)	-	-	(38,424)
Net income		-	-	-	23,075	-	23,075
Share of other comprehensive loss from associate		-	-	-	-	4,055	4,055
Balance at January 31, 2024		\$ 537,448	\$ 116,980	\$ 654,428	\$ 1,184,157	\$ 8,145	\$ 1,846,730

⁽¹⁾ Alberta Central sold shares of an investment, which resulted in a reclassification of accumulated other comprehensive income to retained earnings. The amount reported is the Credit Union's portion of the reclassification, net of income tax expense for the three months ended January 31, 2023 of \$1,507

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

SERVUS CREDIT UNION LTD.
Interim Condensed Consolidated Statement of Cash Flows
(Canadian \$ thousands)
(unaudited)

	Three months ended January 31 2024	Three months ended January 31 2023
Cash flows from (used in) operating activities		
Net income	\$ 23,075	\$ 8,182
Adjustments for non-cash items and others		
Net interest income ⁽¹⁾	(121,370)	(115,302)
Provision for credit losses	8,970	25,863
Share of loss from investment in associate	840	308
Depreciation	4,841	4,774
Amortization	3,859	2,752
Impairment of assets	207	222
Gain on leased assets	(7)	-
Gain on assets held for sale	(134)	(18)
Gain on disposal of property and equipment	(54)	(24)
Income taxes	7,184	2,457
Adjustments for net changes in operating assets and liabilities		
Change in members' loans and leases	(222,588)	(285,736)
Change in members' deposits	78,472	265,300
Change in assets held for sale	(4,122)	(2,253)
Change in derivatives, net	(14,666)	(6,817)
Change in other assets, provisions, and trade payables and other liabilities, net	(31,098)	(63,825)
Income taxes paid, net	(4,583)	(4,903)
Interest received	252,780	185,108
Interest paid	(117,317)	(48,234)
Net cash used in operating activities	(135,711)	(32,146)
Cash flows from (used in) investing activities		
Additions to intangible assets	(385)	(1,640)
Additions to property and equipment, and investment property	(2,261)	(2,928)
Proceeds on disposal of property and equipment, and investment property	262	114
Proceeds on disposal of assets held for sale	1,648	952
Purchase of investments, net	(26,570)	(123,687)
Net cash used in investing activities	(27,306)	(127,189)
Cash flows from (used in) financing activities		
Repayments of term loans and lines of credit, net	(8,334)	(96,862)
Advances of securitization liabilities	275,579	355,912
Repayments of securitization liabilities	(76,126)	(61,171)
Repayments of principal portion of lease liabilities	(1,394)	(1,250)
Shares issued	2,391	1,662
Shares redeemed	(38,424)	(36,767)
Net cash from financing activities	153,692	161,524
(Decrease) increase in cash and cash equivalents	(9,325)	2,189
Cash and cash equivalents, beginning of period	86,134	80,810
Cash and cash equivalents, end of period	\$ 76,809	\$ 82,999

⁽¹⁾ Net interest income includes a fair value gain on derivatives for the three months ended January 31, 2024 of \$(4,389) (2023 - \$(4,256))

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

SERVUS CREDIT UNION LTD.
Notes to Interim Condensed Consolidated Financial Statements
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1. BASIS OF PRESENTATION

These Interim Condensed Consolidated Financial Statements are prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting as issued by the International Accounting Standards Board (IASB). The Interim Condensed Consolidated Financial Statements do not include all of the information required for full annual financial statements and should be read in conjunction with Servus Credit Union Ltd.'s (Servus or the Credit Union) 2023 audited annual Consolidated Financial Statements.

These Interim Condensed Consolidated Financial Statements were approved by the Audit and Finance Committee on March 25, 2024.

Use of Estimates, Assumptions and Critical Judgments

The preparation of the Interim Condensed Consolidated Financial Statements requires management to make estimates, assumptions and critical judgments that affect the application of accounting policies and the reported amounts of assets, liabilities, income, expenses and related disclosures. Estimates and underlying assumptions required under IFRS Accounting Standards are best estimates undertaken in accordance with the applicable standards and are reviewed on a continuous basis.

The most significant estimates and assumptions have been used in the following areas: fair values of financial instruments; expected credit losses; and the fair value of assets and liabilities acquired in a business combination, including contingent consideration. Actual results may differ significantly from these estimates, and the impact of any such differences will be recorded in future periods.

Critical judgments have been made in the following areas: impairment of non-financial assets, expected credit loss allowance (ECL), classification of financial instruments, classification of leases as a lessor, valuation of leased assets and lease liabilities and accounting for investment in associate.

Provincially, financial markets remain volatile with persistently high inflation and interest rates driving borrowing costs higher. Although this will deter spending, population growth and rising employment are key contributors to Alberta's overall positive economic outlook. These competing factors have a significant impact on management's estimates and assumptions in preparing the Interim Condensed Consolidated Financial Statements. One area of significant judgment affected strongly by the economic environment is the estimate for ECL; refer to Note 6 for more details.

2. ACCOUNTING POLICIES

These Interim Condensed Consolidated Financial Statements have been prepared following the same accounting policies and methods as those used in preparing the Credit Union's 2023 annual Consolidated Financial Statements, with the exception of new and amended standards applicable to the current year:

- Definition of Accounting Estimates (Amendments to IAS 8)
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)
- Amendments to IFRS 17 – Insurance Contracts

The adoption of these new and amended standards effective November 1, 2023 have no impact on the financial statements.

The following amendment will be adopted in the Credit Union's 2024 annual Consolidated Financial Statements, and may result in the inclusion of only material accounting policies:

- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)

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3. INVESTMENTS

	As at January 31 2024	As at October 31 2023
Term deposits with Alberta Central	\$ 1,511,436	\$ 1,484,866
Other	108	108
	1,511,544	1,484,974
Accrued interest	9,317	8,869
	1,520,861	1,493,843
ECL allowance on investments	(2)	(2)
Total	\$ 1,520,859	\$ 1,493,841

4. MEMBERS' LOANS AND LEASES

The following table presents the carrying amount of loans and leases, and the exposure amount for off-balance sheet items according to the stage in which they are classified as well as the allowance for credit losses:

As at January 31, 2024	Performing		Impaired		Total	Allowance for Credit Losses	Total Net of Allowance
	Stage 1	Stage 2	Stage 3				
Members' Loans and Leases							
Residential mortgages	\$ 8,792,647	\$ 605,426	\$ 13,945	\$ 9,412,018	\$ 3,939	\$ 9,408,079	
Commercial ⁽¹⁾	7,461,166	299,436	108,776	7,869,378	55,556	7,813,822	
Consumer ⁽²⁾	1,090,219	110,778	6,021	1,207,018	8,360	1,198,658	
Total members' loans and leases	\$ 17,344,032	\$ 1,015,640	\$ 128,742	\$ 18,488,414	\$ 67,855	\$ 18,420,559	
Off Balance Sheet Credit Instruments							
Residential mortgages	\$ 2,287,776	\$ 15,303	\$ 105	\$ 2,303,184	\$ 219	\$ 2,302,965	
Commercial ⁽¹⁾	1,785,066	18,444	202	1,803,712	1,722	1,801,990	
Consumer ⁽²⁾	1,060,863	22,069	3	1,082,935	2,008	1,080,927	
Total off balance sheet credit instruments	\$ 5,133,705	\$ 55,816	\$ 310	\$ 5,189,831	\$ 3,949	\$ 5,185,882	
As at October 31, 2023							
Members' Loans and Leases							
Residential mortgages	\$ 8,767,382	\$ 574,469	\$ 13,986	\$ 9,355,837	\$ 3,558	\$ 9,352,279	
Commercial ⁽¹⁾	7,271,905	309,941	104,132	7,685,978	52,135	7,633,843	
Consumer ⁽²⁾	1,128,947	93,054	5,540	1,227,541	7,576	1,219,965	
Total members' loans and leases	\$ 17,168,234	\$ 977,464	\$ 123,658	\$ 18,269,356	\$ 63,269	\$ 18,206,087	
Off Balance Sheet Credit Instruments							
Residential mortgages	\$ 2,249,294	\$ 21,126	\$ 470	\$ 2,270,890	\$ 201	\$ 2,270,689	
Commercial ⁽¹⁾	1,796,411	15,353	3,980	1,815,744	1,479	1,814,265	
Consumer ⁽²⁾	1,047,901	23,189	17	1,071,107	1,928	1,069,179	
Total off balance sheet credit instruments	\$ 5,093,606	\$ 59,668	\$ 4,467	\$ 5,157,741	\$ 3,608	\$ 5,154,133	

⁽¹⁾ Includes commercial loans, credit card, agriculture loans, and lease receivables

⁽²⁾ Includes consumer loans and credit card

5. ALLOWANCE FOR EXPECTED CREDIT LOSSES

Key Data and Assumptions

Estimating the ECL is based on a set of inputs, assumptions and methodologies placed around credit risk and future looking indicators and therefore requires significant judgment. Management has made complex and subjective judgments to assess the adequacy of the assumptions used to calculate the ECL.

SERVUS CREDIT UNION LTD.
Notes to Interim Condensed Consolidated Financial Statements
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5. ALLOWANCE FOR EXPECTED CREDIT LOSSES (CONTINUED)

These inputs and assumptions are assessed each reporting period considering both positive and negative aspects of the current economic environment. ECL models use historical information in their methodologies and assumptions, and therefore are not able to address all considerations of the current economic state. Additional analysis and an amount added to model results as a management overlay, which is calculated outside of the model based on analyses, may be required. The best information available as at the reporting date is used in the model and in all additional analysis.

The Credit Union uses a model created by Central 1 (the model) to estimate the ECL. Changes in inputs and the assumptions used have an impact on the assessment of significant increase in credit risk and the measurement of ECL. The main areas where judgment is used in the model is in the assessment of whether there is a significant increase in credit risk on loans, the probability that a member will default on a loan, forecasted future looking indicators and the weightings to be used on the base, best and worst-case scenarios for the forward-looking indicators (FLI).

The macroeconomic factors used in the model that affect the Credit Union ECL calculations are:

- Alberta unemployment rates
- Canadian unemployment rates (Credit Card book only)
- Alberta housing price index
- The rate spread between the three-month Bank of Canada bond and three-month Bankers' Acceptance rates

Each factor is forecast in three scenarios, a base case, a best case and a worst-case scenario. These scenarios are weighted, and the weighted average is used to build the calculated estimate for ECL. At January 31, 2024, management concluded that the weighting to be used is a 60% base, 20% best and 20% worst-case (October 31, 2023 - 60% base, 20% best and 20% worst-case).

Sensitivity analysis will show when the loan book has a risk that is not adequately covered by the model calculation, and this analysis provides justification for a management overlay to be applied to the ECL calculated by the model. These analyses are performed and assessed each reporting period to estimate the amount of a management overlay amount to add to the model results.

At January 31, 2024, management has not applied an overlay (October 31, 2023 - \$0) to the calculated ECL.

SERVUS CREDIT UNION LTD.
Notes to Interim Condensed Consolidated Financial Statements
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5. ALLOWANCE FOR EXPECTED CREDIT LOSSES (CONTINUED)

The following table presents the changes in the allowance for credit losses:

	Residential Mortgages	Commercial ⁽¹⁾	Consumer ⁽²⁾	Total
As at October 31, 2023	\$ 3,759	\$ 53,614	\$ 9,504	\$ 66,877
Recoveries of previous loan and lease write-offs	-	79	1,004	1,083
Provision charged to net income	625	5,518	2,827	8,970
	4,384	59,211	13,335	76,930
Loans and leases written off	(226)	(1,933)	(2,967)	(5,126)
As at January 31, 2024	\$ 4,158	\$ 57,278	\$ 10,368	\$ 71,804

Presented on Interim Condensed Consolidated Statement of Financial Position as:

Netted with members' loans and leases	3,939	55,556	8,360	67,855
Off balance sheet credit instruments ⁽³⁾	219	1,722	2,008	3,949
Total	\$ 4,158	\$ 57,278	\$ 10,368	\$ 71,804

	Residential Mortgages	Commercial ⁽¹⁾	Consumer ⁽²⁾	Total
As at October 31, 2022	\$ 4,744	\$ 27,526	\$ 11,428	\$ 43,698
Acquisition, June 1, 2023	-	409	-	409
Recoveries of previous loan write-offs	30	171	4,286	4,487
Provision charged to net income	1,561	31,018	3,748	36,327
	6,335	59,124	19,462	84,921
Loans written off	(2,576)	(5,510)	(9,958)	(18,044)
As at October 31, 2023	\$ 3,759	\$ 53,614	\$ 9,504	\$ 66,877

Presented on Interim Condensed Consolidated Statement of Financial Position as:

Netted with members' loans and leases	3,558	52,135	7,576	63,269
Off balance sheet credit instruments ⁽³⁾	201	1,479	1,928	3,608
Total	\$ 3,759	\$ 53,614	\$ 9,504	\$ 66,877

⁽¹⁾ Includes commercial loans, credit card, agriculture loans, and lease receivables

⁽²⁾ Includes consumer loans and credit card

⁽³⁾ Includes undrawn commitments and financial guarantees

SERVUS CREDIT UNION LTD.
Notes to Interim Condensed Consolidated Financial Statements
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5. ALLOWANCE FOR EXPECTED CREDIT LOSSES (CONTINUED)

The following tables reconcile the opening and closing allowances for loans, by stage, for each major category:

Allowance for credit losses – Residential Mortgages

	Performing		Impaired		Total
	Stage 1	Stage 2	Stage 3		
As at October 31, 2023	\$ 1,198	\$ 1,849	\$ 712	\$	3,759
Transfers					
Stage 1 ⁽¹⁾	451	(423)	(28)		-
Stage 2 ⁽¹⁾	(73)	170	(97)		-
Stage 3 ⁽¹⁾	-	(58)	58		-
New originations ⁽²⁾	56	125	-		181
Repayments ⁽³⁾	(24)	(50)	(68)		(142)
Remeasurements ⁽⁴⁾	(371)	441	516		586
Loans written off	-	-	(226)		(226)
As at January 31, 2024	\$ 1,237	\$ 2,054	\$ 867	\$	4,158

Presented on Interim Condensed Consolidated Statement of Financial Position as:

Netted with members' loans and leases	1,061	2,011	867		3,939
Off balance sheet credit instruments	176	43	-		219
Total	\$ 1,237	\$ 2,054	\$ 867	\$	4,158

	Performing		Impaired		Total
	Stage 1	Stage 2	Stage 3		
As at October 31, 2022	\$ 1,476	\$ 2,178	\$ 1,090	\$	4,744
Transfers					
Stage 1 ⁽¹⁾	935	(894)	(41)		-
Stage 2 ⁽¹⁾	(94)	188	(94)		-
Stage 3 ⁽¹⁾	(3)	(63)	66		-
New originations ⁽²⁾	248	453	23		724
Repayments ⁽³⁾	(123)	(223)	(223)		(569)
Remeasurements ⁽⁴⁾	(1,241)	210	2,437		1,406
Loans written off	-	-	(2,576)		(2,576)
Recoveries	-	-	30		30
As at October 31, 2023	\$ 1,198	\$ 1,849	\$ 712	\$	3,759

Presented on Interim Condensed Consolidated Statement of Financial Position as:

Netted with members' loans and leases	1,038	1,808	712		3,558
Off balance sheet credit instruments	160	41	-		201
Total	\$ 1,198	\$ 1,849	\$ 712	\$	3,759

⁽¹⁾ Stage transfers represent movement between stages

⁽²⁾ New originations relate to new loans recognized during the period and reflect movements into different stages within the period

⁽³⁾ Repayments relate to loans fully repaid or derecognized and exclude loans written off where a credit loss was incurred

⁽⁴⁾ Represents the change in the allowance due to changes in economic factors, risk, model parameters and management overlay

SERVUS CREDIT UNION LTD.
Notes to Interim Condensed Consolidated Financial Statements
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5. ALLOWANCE FOR EXPECTED CREDIT LOSSES (CONTINUED)

Allowance for credit losses – Commercial Loans, Credit Card, Agriculture Loans, and Lease Receivables

	Performing		Impaired		Total
	Stage 1	Stage 2	Stage 3		
As at October 31, 2023	\$ 5,188	\$ 2,166	\$ 46,260	\$	53,614
Transfers					
Stage 1 ⁽¹⁾	191	(65)	(126)		-
Stage 2 ⁽¹⁾	(36)	227	(191)		-
Stage 3 ⁽¹⁾	(9)	(30)	39		-
New originations ⁽²⁾	536	38	33		607
Repayments ⁽³⁾	(253)	(93)	(265)		(611)
Remeasurements ⁽⁴⁾	923	281	4,318		5,522
Loans and leases written off	-	-	(1,933)		(1,933)
Recoveries	-	-	79		79
As at January 31, 2024	\$ 6,540	\$ 2,524	\$ 48,214	\$	57,278

Presented on Interim Condensed Consolidated Statement of Financial Position as:

Netted with members' loans and leases	4,943	2,425	48,188		55,556
Off balance sheet credit instruments	1,597	99	26		1,722
Total	\$ 6,540	\$ 2,524	\$ 48,214	\$	57,278

	Performing		Impaired		Total
	Stage 1	Stage 2	Stage 3		
As at October 31, 2022	\$ 6,229	\$ 1,684	\$ 19,613	\$	27,526
Acquisition, June 1, 2023	205	9	195		409
Transfers					
Stage 1 ⁽¹⁾	529	(375)	(154)		-
Stage 2 ⁽¹⁾	(193)	215	(22)		-
Stage 3 ⁽¹⁾	(35)	(569)	604		-
New originations ⁽²⁾	1,522	385	511		2,418
Repayments ⁽³⁾	(546)	(102)	(162)		(810)
Remeasurements ⁽⁴⁾	(2,523)	919	31,014		29,410
Loans written off	-	-	(5,510)		(5,510)
Recoveries	-	-	171		171
As at October 31, 2023	\$ 5,188	\$ 2,166	\$ 46,260	\$	53,614

Presented on Interim Condensed Consolidated Statement of Financial Position as:

Netted with members' loans and leases	3,804	2,083	46,248		52,135
Off balance sheet credit instruments	1,384	83	12		1,479
Total	\$ 5,188	\$ 2,166	\$ 46,260	\$	53,614

⁽¹⁾ Stage transfers represent movement between stages

⁽²⁾ New originations relate to new loans recognized during the period and reflect movements into different stages within the period

⁽³⁾ Repayments relate to loans fully repaid or derecognized and exclude loans written off where a credit loss was incurred

⁽⁴⁾ Represents the change in the allowance due to changes in economic factors, risk, model parameters and management overlay

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5. ALLOWANCE FOR EXPECTED CREDIT LOSSES (CONTINUED)

Allowance for credit losses – Consumer Loans and Credit Card

	Performing		Impaired		Total
	Stage 1	Stage 2	Stage 3		
As at October 31, 2023	\$ 2,866	\$ 4,890	\$ 1,748	\$	9,504
Transfers					
Stage 1 ⁽¹⁾	1,272	(1,156)	(116)		-
Stage 2 ⁽¹⁾	(218)	556	(338)		-
Stage 3 ⁽¹⁾	(2)	(115)	117		-
New originations ⁽²⁾	123	177	-		300
Repayments ⁽³⁾	(56)	(91)	(41)		(188)
Remeasurements ⁽⁴⁾	(999)	1,536	2,178		2,715
Loans written off	-	-	(2,967)		(2,967)
Recoveries	-	-	1,004		1,004
As at January 31, 2024	\$ 2,986	\$ 5,797	\$ 1,585	\$	10,368

Presented on Interim Condensed Consolidated Statement of Financial Position as:

Netted with members' loans and leases	1,924	4,852	1,584		8,360
Off balance sheet credit instruments	1,062	945	1		2,008
Total	\$ 2,986	\$ 5,797	\$ 1,585	\$	10,368

	Performing		Impaired		Total
	Stage 1	Stage 2	Stage 3		
As at October 31, 2022	\$ 3,842	\$ 6,251	\$ 1,335	\$	11,428
Transfers					
Stage 1 ⁽¹⁾	2,539	(2,384)	(155)		-
Stage 2 ⁽¹⁾	(306)	379	(73)		-
Stage 3 ⁽¹⁾	(12)	(105)	117		-
New originations ⁽²⁾	620	933	159		1,712
Repayments ⁽³⁾	(309)	(454)	(123)		(886)
Remeasurements ⁽⁴⁾	(3,508)	270	6,160		2,922
Loans written off	-	-	(9,958)		(9,958)
Recoveries	-	-	4,286		4,286
As at October 31, 2023	\$ 2,866	\$ 4,890	\$ 1,748	\$	9,504

Presented on Interim Condensed Consolidated Statement of Financial Position as:

Netted with members' loans and leases	1,850	3,978	1,748		7,576
Off balance sheet credit instruments	1,016	912	-		1,928
Total	\$ 2,866	\$ 4,890	\$ 1,748	\$	9,504

⁽¹⁾ Stage transfers represent movement between stages

⁽²⁾ New originations relate to new loans recognized during the period and reflect movements into different stages within the period

⁽³⁾ Repayments relate to loans fully repaid or derecognized and exclude loans written off where a credit loss was incurred

⁽⁴⁾ Represents the change in the allowance due to changes in economic factors, risk, model parameters and management overlay

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6. CREDIT QUALITY OF MEMBERS' LOANS AND LEASES

The following table outlines the ranges used for the categorization of risk assessments:

Risk Assessment	FICO Score Range			Risk Rating Range
	Insured Residential Mortgages	Conventional Residential Mortgages	Consumer ⁽¹⁾	Commercial ⁽²⁾
Very low risk	800 +	800 +	800 +	1
Low risk	701 - 799	701 - 799	701 - 799	2 and 3
Medium risk	600 - 700	650 - 700	650 - 700	4 and 5
High risk/impaired	599 or less	649 or less	649 or less	6, 7, 8, and 9

⁽¹⁾ Includes consumer loans and credit card

⁽²⁾ Includes commercial loans, credit card, agriculture loans, and lease receivables

The following table presents the gross carrying amount of the loans subject to impairment by risk category:

As at January 31, 2024	Residential Mortgages	Commercial ⁽¹⁾	Consumer ⁽²⁾	Total
Risk Categories				
Very low risk	\$ 3,791,466	\$ 34,871	\$ 397,329	\$ 4,223,666
Low risk	3,494,126	3,342,990	491,032	7,328,148
Medium risk	1,510,786	4,187,718	188,765	5,887,269
High risk	601,695	195,023	123,871	920,589
Impaired	13,945	108,776	6,021	128,742
Total members' loans and leases	\$ 9,412,018	\$ 7,869,378	\$ 1,207,018	\$ 18,488,414

As at October 31, 2023	Residential Mortgages	Commercial ⁽¹⁾	Consumer ⁽²⁾	Total
Risk Categories				
Very low risk	\$ 3,773,447	\$ 18,920	\$ 398,946	\$ 4,191,313
Low risk	3,494,690	3,318,206	512,378	7,325,274
Medium risk	1,513,696	4,059,101	200,250	5,773,047
High risk	560,018	185,619	110,427	856,064
Impaired	13,986	104,132	5,540	123,658
Total members' loans and leases	\$ 9,355,837	\$ 7,685,978	\$ 1,227,541	\$ 18,269,356

⁽¹⁾ Includes commercial loans, credit card, agriculture loans, and lease receivables

⁽²⁾ Includes consumer loans and credit card

The following table presents the amount of undrawn loan commitments subject to impairment by risk category:

As at January 31, 2024	Residential Mortgages	Commercial ⁽¹⁾	Consumer ⁽²⁾	Total
Risk Categories				
Very low risk	\$ 1,209,175	\$ 184,017	\$ 687,864	\$ 2,081,056
Low risk	1,033,315	1,222,944	309,389	2,565,648
Medium risk	45,094	379,768	60,637	485,499
High risk	15,495	16,781	25,042	57,318
Impaired	105	202	3	310
Total off balance sheet credit instruments	\$ 2,303,184	\$ 1,803,712	\$ 1,082,935	\$ 5,189,831

As at October 31, 2023	Residential Mortgages	Commercial ⁽¹⁾	Consumer ⁽²⁾	Total
Risk Categories				
Very low risk	\$ 1,188,266	\$ 200,106	\$ 671,696	\$ 2,060,068
Low risk	1,011,688	1,203,675	308,163	2,523,526
Medium risk	50,388	393,476	63,258	507,122
High risk	20,078	14,507	27,973	62,558
Impaired	470	3,980	17	4,467
Total off balance sheet credit instruments	\$ 2,270,890	\$ 1,815,744	\$ 1,071,107	\$ 5,157,741

⁽¹⁾ Includes commercial loans, credit card, agriculture loans, and lease receivables

⁽²⁾ Includes consumer loans and credit card

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6. CREDIT QUALITY OF MEMBERS' LOANS AND LEASES (CONTINUED)

Loans Past Due, as at January 31, 2024	Up to 30 Days	31 to 59 Days	60 to 89 Days	90 Days and Above	Total
Stage 1					
Residential mortgages	\$ 56,335	\$ -	\$ -	\$ -	\$ 56,335
Commercial ⁽¹⁾	24,700	-	-	-	24,700
Consumer ⁽²⁾	17,999	-	-	-	17,999
Stage 2					
Residential mortgages	27,600	31,590	13,281	5,550	78,021
Commercial ⁽¹⁾	1,904	76,720	40,010	47,120	165,754
Consumer ⁽²⁾	7,602	7,081	2,849	-	17,532
Stage 3					
Residential mortgages	-	-	-	13,682	13,682
Commercial ⁽¹⁾	57	12,739	1,906	84,456	99,158
Consumer ⁽²⁾	-	-	-	6,634	6,634
Total	\$ 136,197	\$ 128,130	\$ 58,046	\$ 157,442	\$ 479,815

Loans Past Due, as at October 31, 2023	Up to 30 Days	31 to 59 Days	60 to 89 Days	90 Days and above	Total
Stage 1					
Residential mortgages	\$ 63,341	\$ -	\$ -	\$ -	\$ 63,341
Commercial ⁽¹⁾	17,362	-	-	-	17,362
Consumer ⁽²⁾	19,291	-	-	-	19,291
Stage 2					
Residential mortgages	24,600	34,280	13,783	7,023	79,686
Commercial ⁽¹⁾	12,161	73,562	55,433	27,593	168,749
Consumer ⁽²⁾	6,210	6,807	3,593	65	16,675
Stage 3					
Residential mortgages	-	-	-	13,951	13,951
Commercial ⁽¹⁾	11,856	64	1,152	83,874	96,946
Consumer ⁽²⁾	-	-	-	5,783	5,783
Total	\$ 154,821	\$ 114,713	\$ 73,961	\$ 138,289	\$ 481,784

⁽¹⁾ Includes commercial loans, credit card, agriculture loans, and lease receivables

⁽²⁾ Includes consumer loans and credit card

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

The amount and types of collateral required depend on the Credit Union's assessment of 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.

Loans and Leases by Security	As at	
	January 31 2024	October 31 2023
Insured loans and mortgages	\$ 3,867,838	\$ 3,633,504
Secured by mortgage	12,721,486	12,795,438
Secured by equipment and other	1,241,321	1,215,543
Unsecured loans	404,819	368,708
Unsecured credit card	252,950	256,163
Total	\$ 18,488,414	\$ 18,269,356

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7. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

	As at January 31, 2024			As at October 31, 2023		
	Gross Financial Assets	Gross Financial Liabilities	Net	Gross Financial Assets	Gross Financial Liabilities	Net
Equity-linked options	\$ 7,265	\$ (7,152)	\$ 113	\$ 4,538	\$ (4,450)	\$ 88
Bond Forwards	591	-	591	-	-	-
Interest rate swaps	-	(13,059)	(13,059)	-	(27,109)	(27,109)
Total	\$ 7,856	\$ (20,211)	\$ (12,355)	\$ 4,538	\$ (31,559)	\$ (27,021)

As of the current reporting date there are no derivative financial instrument contracts subject to an enforceable master netting agreement.

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 January 31 2024	As at October 31 2023
Interest rate swaps					
receive fixed, pay floating	\$ -	\$ 300,000	\$ -	\$ 300,000	\$ 600,000
Equity-linked options	21,650	28,175	60,750	110,575	115,525
Bond Forward	47,000	-	-	47,000	-
Total	\$ 68,650	\$ 328,175	\$ 60,750	\$ 457,575	\$ 715,525

Equity-linked Options

Equity-linked options are used to fix costs on term deposit liabilities that pay a return to the deposit holder based on the change in equity market indices. The embedded derivative in the term deposit liability and the option derivative are marked to market through interest income investments and have similar principal values and maturity dates. The fair value of the equity-linked derivative contract is separately presented as part of derivative instrument assets.

Interest Rate Swaps

Interest rate swaps are agreements where two counterparties exchange a series of interest payments based on different interest rates applied to a notional amount.

Due to the fluctuations in interest rates, the fair value of interest rate swaps for the Credit Union may be presented as an asset or liability on the consolidated statement of financial position.

Bond Forward Contracts

Bond forward contracts are contractual obligations to buy or sell an interest-rate sensitive bond on a predetermined future date at a specific price.

8. INVESTMENT INCOME

	Three months ended January 31 2024	Three months ended January 31 2023
Investment income on term deposits and other	\$ 18,119	\$ 10,133
Unrealized gain on derivative instruments	4,438	4,285
Realized loss on derivative instruments	(3,534)	(5,653)
Total	\$ 19,023	\$ 8,765

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9. 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 values of items that are not considered financial assets and financial liabilities.

As at January 31, 2024	Note	Carrying Value	Fair Value	Fair Value Difference
Financial Instrument Assets				
Cash and cash equivalents	a	\$ 76,809	\$ 76,809	-
Interest bearing deposits with financial institutions	c,e	1,520,751	1,517,420	(3,331)
Assets at fair value through profit or loss	d	7,942	7,942	-
Members' loans and leases	b,c,e	18,420,559	18,000,048	(420,511)
Other	a	15,370	15,370	-
Total financial instrument assets		20,041,431	19,617,589	(423,842)
Financial Instrument Liabilities				
Members' deposits	b,c	16,749,823	16,747,721	(2,102)
Liabilities at fair value through profit or loss	d,f	25,099	25,099	-
Securitization liabilities	c	1,668,064	1,654,586	(13,478)
Payables and other financial liabilities	a	170,182	170,182	-
Total financial instrument liabilities		\$ 18,613,168	\$ 18,597,588	\$ (15,580)
As at October 31, 2023	Note	Carrying Value	Fair Value	Fair Value Difference
<i>Financial Instrument Assets</i>				
Cash and cash equivalents	a	\$ 86,134	\$ 86,134	-
Interest bearing deposits with financial institutions	c,e	1,493,733	1,488,341	(5,392)
Assets at fair value through profit or loss	d	4,624	4,624	-
Members' loans and leases	b,c,e	18,206,087	17,488,086	(718,001)
Other	a	25,482	25,482	-
Total financial instrument assets		19,816,060	19,092,667	(723,393)
<i>Financial Instrument Liabilities</i>				
Members' deposits	b,c	16,662,604	16,615,162	(47,442)
Liabilities at fair value through profit or loss	d,f	36,192	36,192	-
Borrowings	b	8,334	8,334	-
Securitization liabilities	c	1,454,324	1,418,723	(35,601)
Payables and other financial liabilities	a	218,665	218,665	-
Total financial instrument liabilities		\$ 18,380,119	\$ 18,297,076	\$ (83,043)

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 values of floating rate member loans, member deposits and borrowings are assumed to equal their book values since the interest rates reprice when market rates change.

(c) The fair values of the following instruments are estimated using level 2 inputs:

- Interest-bearing deposits with financial institutions are estimated by discounting the expected future cash flows based on yield curves of financial liabilities with similar terms.
- Fixed-rate member deposits are determined by discounting contractual cash flows using current market rates on deposits with similar terms.
- Securitization liabilities are discounted using adjusted implied yields from prices of similar actively traded government agency securities.

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9. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The fair values of fixed-rate member loans and leases are estimated by discounting expected future cash flows using current market interest rates for loans with similar credit risk, which are level 3 inputs.

(d) The fair values of derivative financial instruments and investment share liability for member shares - series E are calculated based on valuation techniques using factors reflecting market conditions at a specific point in time and may not be reflective of future fair values. These factors are level 2 inputs.

(e) Allowances, which are netted against the fair value determined as per footnotes c and d, use forward-looking information in the calculation of ECL.

(f) The fair value of contingent consideration in the purchase of Stride Capital Corp.'s (Stride) assets in the previous fiscal year is assessed each reporting period. The fair value of the promissory note payable when the leasing subsidiary achieves its revenue targets is determined using forecasted revenue estimates, discounted with Bank of Canada bond yield. The promissory note payable to Stride's key management personnel is evaluated using weighted probabilities of management retention. These forecasted revenue estimates and weighted probabilities are level 3 inputs.

The following table provides an analysis of the financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which fair value is observable:

As at January 31, 2024	Level 1	Level 2	Level 3	Total
Financial Assets				
Derivative assets	\$ -	\$ 7,856	\$ -	\$ 7,856
Investment shares in entities ⁽¹⁾	-	-	86	86
Total	\$ -	\$ 7,856	\$ 86	\$ 7,942
Financial Liabilities				
Member shares - Series E	-	475	-	475
Derivative liabilities	-	20,211	-	20,211
Contingent consideration	-	-	4,413	4,413
Total	\$ -	\$ 20,686	\$ 4,413	\$ 25,099

Financial assets fair value measurements using Level 3 inputs

Balance at October 31, 2023	\$	86
Balance at January 31, 2024	\$	86

Financial liabilities fair value measurements using Level 3 inputs

Balance at October 31, 2023	\$	4,182
Contingent consideration - fair value change		231
Balance at January 31, 2024	\$	4,413

As at October 31, 2023	Level 1	Level 2	Level 3	Total
<i>Financial Assets</i>				
Derivative assets	\$ -	\$ 4,538	\$ -	\$ 4,538
Investment shares in entities ⁽¹⁾	-	-	86	86
Total	\$ -	\$ 4,538	\$ 86	\$ 4,624
<i>Financial Liabilities</i>				
Member shares - Series E	-	451	-	451
Derivative liabilities	-	31,559	-	31,559
Contingent consideration	-	-	4,182	4,182
Total	\$ -	\$ 32,010	\$ 4,182	\$ 36,192

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9. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Financial assets fair value measurements using Level 3 inputs	
Balance at October 31, 2022	\$ 1,522
Purchases	10
Sales	(1,446)
Balance at October 31, 2023	\$ 86

Financial liabilities fair value measurements using Level 3 inputs	
Balance at October 31, 2022	\$ -
Contingent consideration	4,182
Balance at October 31, 2023	\$ 4,182

⁽¹⁾ Investment shares in entities are included in Investments on the Interim Condensed Consolidated Statement of Financial Position

10. COMPARATIVE FIGURES

Certain comparative figures in the interim condensed consolidated income statement and interim condensed consolidated statement of cash flows have been adjusted to conform to the current year's presentation.

11. EVENTS AFTER THE REPORTING PERIOD

In March 2023, the boards of connectFirst Credit Union (connectFirst) and the Credit Union announced their intent to explore the possibility of merging. Upon completion of due diligence activities in early August 2023, both boards unanimously endorsed and recommended the proposed merger to members. Closing of the proposed merger is subject to approval from members and regulatory authorities.

On September 19, 2023, 84% of the Credit Union's members voted in favor to merge with connectFirst. On November 9, 2023, 85% of connectFirst's members voted in favor to merge with Servus Credit Union. The Credit Union Deposit Guarantee Corporation's approval was received in November 2023, and the Competition Bureau clearance is outstanding. Both credit unions have agreed to the proposed merger to ensure the long-term needs of members are met and continued growth to expand operations.

The merger is planned to close in the 2024 fiscal year pending regulatory clearance.

Control of Alberta Central

Alberta Central is the central banking facility, service bureau and trade association for Alberta credit unions. All Alberta credit unions own shares in Alberta Central based on a percentage of system assets. Servus Credit Union and connectFirst are expected to continue to hold ownership interests of 61% and 22%, respectively. If the credit unions merge, the merged entity would hold 83% of the system assets, ownership interest and occupy more than half of the board positions on Alberta Central's board. Subject to regulatory approval, for accounting purposes, the merged entity would acquire control over Alberta Central. Therefore, the financial results of Alberta Central would be consolidated with the financial results of the merged entity.



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