

**SERVUS CREDIT UNION LTD.**

**Interim Condensed Consolidated Financial Statements**

**For the three months ended**

**January 31, 2017**

**(unaudited)**

**SERVUS CREDIT UNION LTD.**  
**Interim Condensed Consolidated Financial Statements**  
**(unaudited)**

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To the Audit and Finance Committee of  
Servus Credit Union Ltd.

In accordance with our engagement letter dated February 10, 2017, we have performed an interim review of the interim condensed consolidated statement of financial position of Servus Credit Union Ltd. (the "Credit Union") as at January 31, 2017, and the interim condensed consolidated statements of income and comprehensive income, changes in equity and cash flows for the three-month period ended January 31, 2017. These condensed consolidated financial statements are the responsibility of the Credit Union's management.

We performed our interim review in accordance with Canadian generally accepted standards for a review of interim financial statements by an entity's auditor (an "interim review").

An interim review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements. Accordingly, we do not express such an opinion. An interim review does not provide assurance that we would become aware of any or all significant matters that might be identified in an audit.

As explained in Note 8, the Credit Union obtained control of Crelogix Credit Group Inc. on November 15, 2016, however, continues to use the equity method of accounting which constitutes a departure from International Financial Reporting Standards. International Financial Reporting Standards require that the Credit Union remeasures its previously held equity interest in Crelogix Credit Group Inc. at its acquisition-date fair value on the date that control is obtained and recognizes the resulting gain or loss, if any, in net income. In addition, subsequent to the date that control is obtained, the financial statements of Crelogix Credit Group Inc. are required to be consolidated on a line by line basis with the financial statements of the Credit Union. We were unable to obtain the acquisition-date fair value of Crelogix Credit Group Inc. at the date the Credit Union obtained control or the financial statements of the acquiree for the period subsequent to the date that control was obtained. Consequently, we were unable to perform the procedures we considered necessary.

Based on our interim review, except for the possible effects of the matters described in the preceding paragraph, we are not aware of any material modification that needs to be made to these interim condensed consolidated financial statements to be in accordance with International Accounting Standards 34, *Interim Financial Reporting*.

We have previously audited, in accordance with Canadian generally accepted auditing standards, the consolidated statement of financial position of the Credit Union as at October 31, 2016, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended (not presented herein). In our report dated January 19, 2017, we expressed an unmodified audit opinion on those financial statements. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial position as at October 31, 2016, is fairly stated, in all material respects, in relation to the financial statements from which it has been derived.

We were not engaged to report on the comparative information for the three-month period ended January 31, 2016, and as such, it is neither audited nor reviewed.

This report is solely for the use of the Audit and Finance Committee of the Credit Union to assist it in discharging its regulatory obligation to review these financial statements, and should not be used for any other purpose.

*Deloitte LLP*

Chartered Professional Accountants  
March 20, 2017

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

	Notes	January 31 2017	October 31 2016
<b>Assets</b>			
Cash and cash equivalents	5	\$ 82,939	\$ 102,002
Investments		1,071,843	1,042,788
Members' loans	6	13,283,620	13,223,624
Assets held for sale		8,164	12,749
Other assets		17,543	15,870
Property and equipment		152,526	155,611
Investment property		7,028	7,100
Derivative financial assets	9	28,714	28,128
Investments in associates		178,732	176,382
Intangible assets		46,212	47,356
<b>Total assets</b>		<b>14,877,321</b>	<b>14,811,610</b>
<b>Liabilities</b>			
Borrowings		148,450	76,007
Secured borrowings		1,168,226	922,215
Members' deposits		12,057,300	12,293,207
Trade payables and other liabilities		114,783	144,241
Income taxes payable		2,689	4,698
Derivative financial liabilities	9	8,229	6,508
Investment shares		421	421
Defined benefit plans		7,630	7,630
Deferred income tax liabilities		17,963	18,043
<b>Total liabilities</b>		<b>13,525,691</b>	<b>13,472,970</b>
<b>Equity</b>			
Share capital		628,401	639,063
Retained earnings		721,747	697,883
Accumulated other comprehensive income		468	683
<b>Total equity attributable to members of the Credit Union</b>		<b>1,350,616</b>	<b>1,337,629</b>
Non-controlling interest		1,014	1,011
<b>Total equity</b>		<b>1,351,630</b>	<b>1,338,640</b>
<b>Total liabilities and equity</b>		<b>\$ 14,877,321</b>	<b>\$ 14,811,610</b>

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

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

Notes	Three months ended January 31 2017	Three months ended January 31 2016
<b>Interest income</b>		
Members' loans	\$ 117,714	\$ 117,799
Investments	1,943	2,462
<b>Total interest income</b>	<b>119,657</b>	<b>120,261</b>
<b>Interest expense</b>		
Members' deposits	26,029	25,311
Other interest expense	4,338	3,300
<b>Total interest expense</b>	<b>30,367</b>	<b>28,611</b>
<b>Net interest income</b>		
	89,290	91,650
Other income	23,179	20,612
Share of profits from associates	3,044	1,736
<b>Net interest income and other income</b>	<b>115,513</b>	<b>113,998</b>
Provision for credit losses	7	5,410
<b>Net interest income after provision for credit losses</b>	<b>110,103</b>	<b>108,351</b>
<b>Operating expenses</b>		
Personnel	45,489	44,807
General	9,817	10,370
Occupancy	5,083	5,101
Member security	3,469	5,503
Depreciation	3,528	3,785
Organization	1,369	1,330
Impairment of assets	570	-
Amortization	1,605	(390)
<b>Total operating expenses</b>	<b>70,930</b>	<b>70,506</b>
<b>Income before patronage allocation to members and income taxes</b>		
	39,173	37,845
Patronage allocation to members	6,994	7,803
<b>Income before income taxes</b>	<b>32,179</b>	<b>30,042</b>
Income taxes	8,312	7,641
<b>Net income</b>	<b>\$ 23,867</b>	<b>\$ 22,401</b>
Other comprehensive loss	(215)	(133)
<b>Total comprehensive income</b>	<b>\$ 23,652</b>	<b>\$ 22,268</b>
<b>Other comprehensive loss for the year, net of tax:</b>		
Share of other comprehensive income of associates		
Actuarial gain (loss) on defined benefit pension plans <sup>(1)</sup> (net of income tax expense (recovery) of \$8, 2016 - \$(75))	23	(215)
Unrealized (loss) gain and reclassification adjustments on available for sale securities (net of income tax (recovery) expense of \$(88), 2016 - \$29) <sup>(2)</sup>	(238)	82
<b>Total other comprehensive loss</b>	<b>\$ (215)</b>	<b>\$ (133)</b>
<b>Total comprehensive income</b>		
Comprehensive income attributable to members	23,649	22,268
Comprehensive income attributable to non-controlling interest	3	-
<b>Total comprehensive income</b>	<b>\$ 23,652</b>	<b>\$ 22,268</b>

<sup>(1)</sup> The Actuarial gains/losses will not be reclassified to profit or loss at a future date

<sup>(2)</sup> These items may be reclassified to profit or loss at a future date

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)**

	Common shares	Investment shares	Retained earnings	Accumulated other comprehensive income	Non-controlling interest	Total equity
Balance at October 31, 2015	\$ 494,685	\$ 114,792	\$ 642,675	\$ 1,313	\$ 1,002	\$ 1,254,467
Changes in equity						
Issues of share capital	10,997	-	-	-	-	10,997
Redemption of share capital	(15,513)	(2,439)	-	-	-	(17,952)
Net income	-	-	22,401	-	-	22,401
Share of other comprehensive income of associates	-	-	-	(133)	-	(133)
Balance at January 31, 2016	\$ 490,169	\$ 112,353	\$ 665,076	\$ 1,180	\$ 1,002	\$ 1,269,780

	Common shares	Investment shares	Retained earnings	Accumulated other comprehensive income	Non-controlling interest	Total equity
<b>Balance at October 31, 2016</b>	<b>\$ 523,247</b>	<b>\$ 115,816</b>	<b>\$ 697,883</b>	<b>\$ 683</b>	<b>\$ 1,011</b>	<b>\$ 1,338,640</b>
Changes in equity						
Issues of share capital	9,120	-	-	-	-	9,120
Redemption of share capital	(17,998)	(1,784)	-	-	-	(19,782)
Net income	-	-	23,864	-	3	23,867
Share of other comprehensive income of associates	-	-	-	(215)	-	(215)
Balance at January 31, 2017	\$ 514,369	\$ 114,032	\$ 721,747	\$ 468	\$ 1,014	\$ 1,351,630

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

	Three months ended January 31 2017	Three months ended January 31 2016
<b>Cash flows from (used in) operating activities</b>		
<b>Net income</b>	\$ 23,867	\$ 22,401
<b>Adjustments for non-cash items and others</b>		
Net interest income	(89,290)	(91,650)
Provision for credit losses	5,410	5,647
Share of profits from investments in associates	(3,044)	(1,736)
Depreciation and amortization	5,133	3,395
Impairment of assets	570	-
Gain on assets held for sale	(1,172)	(50)
Loss on sale of property and equipment	6	21
Income taxes	8,312	7,641
<b>Adjustments for net changes in operating assets and liabilities</b>		
Change in members' loans	(66,679)	(154,007)
Change in members' deposits	(232,589)	(26,397)
Change in assets held for sale	(3,281)	(2,244)
Change in derivatives	1,135	126
Net change in other assets, provisions, and trade payables and other liabilities	(31,053)	(31,008)
Income taxes received and (paid), net	(10,401)	(3,376)
Interest received	121,086	124,172
Interest paid	(33,692)	(26,032)
<b>Net cash used in operating activities</b>	<b>(305,682)</b>	<b>(173,097)</b>
<b>Cash flows from (used in) investing activities</b>		
Additions to intangible assets	(461)	(780)
Additions to property and equipment, and investment property	(396)	(482)
Proceeds on disposal of property and equipment, and investment property	19	13
Proceeds on disposal of assets held for sale	8,869	1,381
Investments	(29,211)	(70,158)
<b>Net cash used in investing activities</b>	<b>(21,180)</b>	<b>(70,026)</b>
<b>Cash flows from (used in) financing activities</b>		
Term loans and lines of credit	72,450	108,252
Advances of secured borrowing	311,819	81,505
Repayment of secured borrowing	(65,808)	(21,621)
Shares issued	9,120	10,997
Shares redeemed	(19,782)	(17,952)
<b>Net cash from financing activities</b>	<b>307,799</b>	<b>161,181</b>
<b>Decrease in cash and cash equivalents</b>	<b>(19,063)</b>	<b>(81,942)</b>
Cash and cash equivalents, beginning of period	102,002	188,389
<b>Cash and cash equivalents, end of period</b>	<b>\$ 82,939</b>	<b>\$ 106,447</b>

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**  
**(Canadian \$ thousands)**  
**(unaudited)**

**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) except for the failure to consolidate Crelogix Credit Group Inc. ("Crelogix"), as described in Note 8. 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. ("Servus" or the "Credit Union") 2016 audited annual consolidated financial statements.

These interim condensed consolidated financial statements were approved by the Audit and Finance Committee on March 20, 2017.

**Significant Accounting Estimates, Assumptions and Judgements**

The preparation of the interim condensed consolidated financial statements requires management to exercise estimates, assumptions and judgements that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. These significant estimates, assumptions and judgements have been disclosed in note 2 of Servus' 2016 annual consolidated financial statements. The estimates, assumptions and judgements used in preparation of these interim condensed consolidated financial statements are consistent with the most recent 2016 annual financial statements.

**2. CHANGES IN ACCOUNTING POLICIES**

These interim condensed consolidated financial statements have been prepared following the same accounting policies and methods as those used in preparing Servus' 2016 annual consolidated financial statements.

**3. FUTURE CHANGES IN ACCOUNTING POLICIES**

The Credit Union is currently assessing the impact of adopting the following developments in new accounting standards on the financial statements that took place during the interim period to the reporting date. At this time, the impact of this change to the Credit Union is unknown.

- **Effective for the Credit Union - November 1, 2017**

- **IFRS 12 Disclosure of Interest in Other Entities**

- The standard has been amended by specifying the disclosure requirements apply to an entity's interests, as outlined in the standard, that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

- **Effective for the Credit Union - November 1, 2018**

- **IAS 40 Investment Property**

- The standard has been amended to clarify transfers of property to, or from, investment property occurs only when there is evidence of a change in use. A change of use occurs if property meets, or no longer meets, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.

**SERVUS CREDIT UNION LTD.**  
**Notes to Interim Condensed Consolidated Financial Statements**  
**(Canadian \$ thousands)**  
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**4. MEMBERS' LOANS**

	Gross Amount	Specific Allowance	Collective Allowance	Net Amount	Impaired Loans
<b>As at January 31, 2017</b>					
Residential mortgages	\$ 7,704,194	\$ 204	\$ 983	\$ 7,703,007	\$ 1,571
Commercial mortgages and loans	4,241,155	19,006	6,004	4,216,145	35,131
Consumer loans	983,262	2,827	10,576	969,859	5,325
Agricultural mortgages and loans	359,726	97	67	359,562	813
	13,288,337	22,134	17,630	13,248,573	42,840
Accrued interest	37,245	1,544	654	35,047	-
<b>Total</b>	<b>\$ 13,325,582</b>	<b>\$ 23,678</b>	<b>\$ 18,284</b>	<b>\$ 13,283,620</b>	<b>\$ 42,840</b>

	Gross Amount	Specific Allowance	Collective Allowance	Net Amount	Impaired Loans
<b>As at October 31, 2016</b>					
Residential mortgages	\$ 7,649,120	\$ 421	\$ 1,292	\$ 7,647,407	\$ 1,904
Commercial mortgages and loans	4,221,809	13,456	6,477	4,201,876	34,723
Consumer loans	997,226	2,990	12,633	981,603	6,526
Agricultural mortgages and loans	356,566	71	17	356,478	613
	13,224,721	16,938	20,419	13,187,364	43,766
Accrued interest	38,518	1,470	788	36,260	-
<b>Total</b>	<b>\$ 13,263,239</b>	<b>\$ 18,408</b>	<b>\$ 21,207</b>	<b>\$ 13,223,624</b>	<b>\$ 43,766</b>

**5. ALLOWANCE FOR CREDIT LOSSES**

**Specific Allowance**

	Residential	Commercial	Consumer	Agricultural	Interest	Total
As at October 31, 2016	\$ 421	\$ 13,456	\$ 2,990	\$ 71	\$ 1,470	\$ 18,408
Recoveries of previous loan write offs	1	59	362	-	-	422
Allowance charged to net income	(91)	6,112	2,047	26	239	8,333
	331	19,627	5,399	97	1,709	27,163
Loans written off	(127)	(621)	(2,572)	-	(165)	(3,485)
<b>As at January 31, 2017</b>	<b>\$ 204</b>	<b>\$ 19,006</b>	<b>\$ 2,827</b>	<b>\$ 97</b>	<b>\$ 1,544</b>	<b>\$ 23,678</b>

	Residential	Commercial	Consumer	Agricultural	Interest	Total
As at October 31, 2015	\$ 344	\$ 15,926	\$ 2,544	\$ 135	\$ 1,601	\$ 20,550
Recoveries of previous loan write offs	2	214	1,185	-	-	1,401
Allowance charged to net income	1,788	9,742	10,026	201	1,079	22,836
	2,134	25,882	13,755	336	2,680	44,787
Loans written off	(1,713)	(12,426)	(10,765)	(265)	(1,210)	(26,379)
<b>As at October 31, 2016</b>	<b>\$ 421</b>	<b>\$ 13,456</b>	<b>\$ 2,990</b>	<b>\$ 71</b>	<b>\$ 1,470</b>	<b>\$ 18,408</b>

**SERVUS CREDIT UNION LTD.**  
**Notes to Interim Condensed Consolidated Financial Statements**  
**(Canadian \$ thousands)**  
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**5. ALLOWANCE FOR CREDIT LOSSES (CONTINUED)**

**Collective Allowance**

	Residential	Commercial	Consumer	Agricultural	Interest	Total
As at October 31, 2016	\$ 1,292	\$ 6,477	\$ 12,633	\$ 17	\$ 788	\$ 21,207
Allowance charged to net income	(309)	(473)	(2,057)	50	(134)	(2,923)
<b>As at January 31, 2017</b>	<b>\$ 983</b>	<b>\$ 6,004</b>	<b>\$ 10,576</b>	<b>\$ 67</b>	<b>\$ 654</b>	<b>\$ 18,284</b>

	Residential	Commercial	Consumer	Agricultural	Interest	Total
As at October 31, 2015	\$ 935	\$ 5,576	\$ 5,346	\$ 2	\$ 682	\$ 12,541
Allowance charged to net income	357	901	7,287	15	106	8,666
As at October 31, 2016	\$ 1,292	\$ 6,477	\$ 12,633	\$ 17	\$ 788	\$ 21,207

**6. CREDIT QUALITY OF MEMBERS' LOANS**

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

<i>As at January 31, 2017</i>	Residential	Commercial	Consumer	Agricultural	Total
<i>Risk Categories</i>					
1 to 5 - Satisfactory risk	\$ -	\$ 4,179,302	\$ -	\$ 358,453	\$ 4,537,755
6 - Watch list	-	17,170	-	460	17,630
8 - Impaired risk - performing	-	2,075	-	-	2,075
7 and 9 - Unacceptable/impaired risk - non-performing	-	7,477	-	-	7,477
Loans without risk rating	7,702,623	-	977,937	-	8,680,560
Loans not impaired	7,702,623	4,206,024	977,937	358,913	13,245,497
Loans specifically impaired	1,571	35,131	5,325	813	42,840
Sub Total	7,704,194	4,241,155	983,262	359,726	13,288,337
Accrued interest	12,001	13,241	8,901	3,102	37,245
<b>Total</b>	<b>\$ 7,716,195</b>	<b>\$ 4,254,396</b>	<b>\$ 992,163</b>	<b>\$ 362,828</b>	<b>\$ 13,325,582</b>

<i>As at October 31, 2016</i>	Residential	Commercial	Consumer	Agricultural	Total
<i>Risk Categories</i>					
1 to 5 - Satisfactory risk	\$ -	\$ 4,165,297	\$ -	\$ 355,491	\$ 4,520,788
6 - Watch list	-	9,918	-	461	10,379
8 - Impaired risk - performing	-	1,876	-	-	1,876
7 and 9 - Unacceptable/impaired risk - non-performing	-	9,995	-	1	9,996
Loans without risk rating	7,647,216	-	990,700	-	8,637,916
Loans not impaired	7,647,216	4,187,086	990,700	355,953	13,180,955
Loans specifically impaired	1,904	34,723	6,526	613	43,766
Sub Total	7,649,120	4,221,809	997,226	356,566	13,224,721
Accrued interest	12,005	13,237	9,306	3,970	38,518
<b>Total</b>	<b>\$ 7,661,125</b>	<b>\$ 4,235,046</b>	<b>\$ 1,006,532</b>	<b>\$ 360,536</b>	<b>\$ 13,263,239</b>

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

**SERVUS CREDIT UNION LTD.**  
**Notes to Interim Condensed Consolidated Financial Statements**  
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**6. CREDIT QUALITY OF MEMBERS' LOANS (CONTINUED)**

*Loans past due, as at January 31, 2017*

	Residential	Commercial	Consumer	Agricultural	Total
Past due up to 29 days	\$ 103,035	\$ 17,717	\$ 16,849	\$ 2,591	\$ 140,192
Past due 30 - 59 days	43,178	22,875	7,422	2,452	75,927
Past due 60 - 89 days	14,234	21,320	3,328	763	39,645
Past due over 90 days	23,635	43,310	5,406	1,649	74,000
<b>Total</b>	<b>\$ 184,082</b>	<b>\$ 105,222</b>	<b>\$ 33,005</b>	<b>\$ 7,455</b>	<b>\$ 329,764</b>

*Loans past due, as at October 31, 2016*

	Residential	Commercial	Consumer	Agricultural	Total
Past due up to 29 days	\$ 132,555	\$ 22,479	\$ 23,192	\$ 2,833	\$ 181,059
Past due 30 - 59 days	41,309	30,862	7,096	2,070	81,337
Past due 60 - 89 days	17,147	4,296	3,471	442	25,356
Past due over 90 days	24,604	39,402	7,330	2,098	73,434
<b>Total</b>	<b>\$ 215,615</b>	<b>\$ 97,039</b>	<b>\$ 41,089</b>	<b>\$ 7,443</b>	<b>\$ 361,186</b>

*Loans Past Due but Not Impaired*

Members' loans are considered past due when payments have not been received by the contractual due date. The following table presents the carrying value of Members' loans that are past due but not classified as impaired because they are either (i) less than 90 days past due unless there is information to the contrary that an impairment event has occurred or (ii) fully secured and collection efforts are reasonably expected to result in full repayment.

*Loans past due but not impaired, as at January 31, 2017*

	Residential	Commercial	Consumer	Agricultural	Total
Past due up to 29 days	\$ 103,035	\$ 17,616	\$ 16,556	\$ 2,591	\$ 139,798
Past due 30 - 59 days	43,164	22,370	7,238	2,452	75,224
Past due 60 - 89 days	14,234	20,627	3,122	763	38,746
Past due over 90 days	22,278	19,519	764	840	43,401
<b>Total</b>	<b>\$ 182,711</b>	<b>\$ 80,132</b>	<b>\$ 27,680</b>	<b>\$ 6,646</b>	<b>\$ 297,169</b>

*Loans past due but not impaired, as at October 31, 2016*

	Residential	Commercial	Consumer	Agricultural	Total
Past due up to 29 days	\$ 132,555	\$ 4,797	\$ 22,837	\$ 2,225	\$ 162,414
Past due 30 - 59 days	41,309	28,703	6,958	2,070	79,040
Past due 60 - 89 days	17,147	3,374	3,277	442	24,240
Past due over 90 days	22,700	25,442	1,491	2,093	51,726
<b>Total</b>	<b>\$ 213,711</b>	<b>\$ 62,316</b>	<b>\$ 34,563</b>	<b>\$ 6,830</b>	<b>\$ 317,420</b>

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

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

	As at January 31 2017	As at October 31 2016
Loans by security:		
Insured loans and mortgages	\$ 2,952,289	\$ 3,119,042
Secured by mortgage	8,075,593	8,335,657
Secured by other	1,586,552	1,105,190
Unsecured	711,148	703,350
<b>Total</b>	<b>\$ 13,325,582</b>	<b>\$ 13,263,239</b>

**SERVUS CREDIT UNION LTD.**  
**Notes to Interim Condensed Consolidated Financial Statements**  
**(Canadian \$ thousands)**  
**(unaudited)**

**7. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES**

<b>As at January 31, 2017</b>	<b>Equity-linked options</b>	<b>Embedded purchase option</b>	<b>Interest rate swaps</b>	<b>Total</b>
<b><i>Derivative Financial Assets</i></b>				
Gross amounts of financial assets before statement of financial position offsetting	\$ -	\$ -	\$ 566	\$ 566
Gross amounts of financial liabilities before statement of financial position offsetting	-	-	434	434
Net amount of financial assets presented on the statement of financial position	-	-	132	132
Amounts not subject to enforceable netting arrangements	7,778	20,804	-	28,582
<b>Total</b>	<b>\$ 7,778</b>	<b>\$ 20,804</b>	<b>\$ 132</b>	<b>\$ 28,714</b>
<b><i>Derivative Financial Liabilities</i></b>				
Gross amounts of financial assets before statement of financial position offsetting	\$ -	\$ -	\$ 140	\$ 140
Gross amounts of financial liabilities before statement of financial position offsetting	-	-	650	434
Net amount of financial liabilities presented on the statement of financial position	-	-	510	510
Amounts not subject to enforceable netting arrangements	7,719	-	-	7,719
<b>Total</b>	<b>\$ 7,719</b>	<b>\$ -</b>	<b>\$ 510</b>	<b>\$ 8,229</b>
<b>As at October 31, 2016</b>	<b>Equity-linked options</b>	<b>Embedded purchase option</b>	<b>Interest rate swaps</b>	<b>Total</b>
<b><i>Derivative Financial Assets</i></b>				
Gross amounts of financial assets before statement of financial position offsetting	\$ -	\$ -	\$ 1,853	\$ 1,853
Gross amounts of financial liabilities before statement of financial position offsetting	-	-	1,545	1,545
Net amount of financial assets presented on the statement of financial position	-	-	308	308
Amounts not subject to enforceable netting arrangements	6,558	21,262	-	27,820
<b>Total</b>	<b>\$ 6,558</b>	<b>\$ 21,262</b>	<b>\$ 308</b>	<b>\$ 28,128</b>
Derivative Financial Liability amounts not subject to enforceable netting arrangements	\$ 6,508	\$ -	\$ -	\$ 6,508

**SERVUS CREDIT UNION LTD.**  
**Notes to Interim Condensed Consolidated Financial Statements**  
**(Canadian \$ thousands)**  
**(unaudited)**

**7. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (CONTINUED)**

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 2017	As at October 31 2016
Interest rate swaps					
receive fixed, pay floating	\$ -	\$ 200,000	\$ 300,000	\$ 500,000	\$ 200,000
Equity linked option	10,616	-	61,165	71,781	71,781
<b>Total</b>	<b>\$ 10,616</b>	<b>\$ 200,000</b>	<b>\$ 361,165</b>	<b>\$ 571,781</b>	<b>\$ 271,781</b>

**Equity-Linked Options**

Equity-linked options are used to fix costs on term deposit products which pay a return to the deposit holder based on the change in equity market indexes. The embedded derivative in the term deposit product 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.

**Embedded Purchase Option**

Notice to exercise the option was given during the quarter and the agreement is effective as of December 15, 2016. A transition period to acquire the underlying consumer loans is being negotiated to complete termination and transfer in 2018.

**Interest Rate Swaps and Interest Rate Cap Options**

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

**8. INVESTMENT IN CRELOGIX**

The Credit Union currently owns 32.1% (October 31, 2016 - 32.1%) of Crelogix and Crelogix also has outstanding debt payable to the Credit Union of \$3,665 (October 31, 2016 - \$3,480) which includes a convertible loan. The conversion feature allows the Credit Union to convert the loan to shares at any time after November 15, 2016 so that following conversion, the Credit Union would own a total of 80% of the outstanding shares of Crelogix. Effective November 15, 2016, Crelogix is deemed to be controlled by the Credit Union. Crelogix has not been able to provide sufficient financial information in a timely manner for the Credit Union to be able to consolidate their financial statements into the interim condensed consolidated financial statements as at and for the three months ended January 31, 2017. Therefore, these statements do not conform with IFRS as Crelogix has not been consolidated from November 15, 2016.

Crelogix has been accounted for using the equity method of accounting. Under the equity method, on initial recognition the investment in Crelogix is recognized at cost, and the carrying amount is increased or decreased to recognize Servus' share of the profit or loss after the date of acquisition.

The carrying value of Servus' investment in Crelogix, excluding the amounts due from Crelogix of \$3,665 (October 31, 2016 - \$3,480), is \$318 as at January 31, 2017 (October 31, 2016 - \$718).