

SERVUS CREDIT UNION LTD.

Interim Condensed Consolidated Financial Statements

For the nine months ended

July 31, 2018

(unaudited)

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

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

	Notes	July 31 2018	October 31 2017
Assets			
Cash and cash equivalents		\$ 93,606	\$ 104,118
Investments		1,401,806	1,181,454
Members' loans	3	14,184,107	13,675,636
Assets held for sale		7,269	9,024
Other assets		27,633	18,256
Property and equipment		144,302	147,127
Investment property		5,278	7,169
Derivative financial assets	6	10,252	31,695
Investment in associate		183,384	172,900
Intangible assets		67,362	43,078
Deferred income tax assets		133	-
Total assets		16,125,132	15,390,457
Liabilities			
Borrowings		250,000	100,000
Secured borrowings		1,385,475	1,093,288
Members' deposits		12,759,296	12,560,063
Trade payables and other liabilities		191,509	173,565
Income taxes payable		6,962	894
Derivative financial liabilities	6	16,514	13,006
Investment shares		429	415
Defined benefit plans		7,266	7,219
Deferred income tax liabilities		21,034	17,894
Total liabilities		14,638,485	13,966,344
Equity			
Share capital		646,047	659,599
Retained earnings		831,267	763,636
Accumulated other comprehensive income (loss)		8,345	(144)
Total equity attributable to members of the Credit Union		1,485,659	1,423,091
Non-controlling interest		988	1,022
Total equity		1,486,647	1,424,113
Total liabilities and equity		\$ 16,125,132	\$ 15,390,457

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 July 31 2018	Three months ended July 31 2017	Nine months ended July 31 2018	Nine months ended July 31 2017
Interest income				
Members' loans	\$ 138,673	\$ 118,031	\$ 395,782	\$ 349,254
Investments	4,782	(2,788)	11,277	2,645
Total interest income	143,455	115,243	407,059	351,899
Interest expense				
Members' deposits	35,171	25,526	96,747	76,203
Other interest expense	8,137	4,454	21,448	13,431
Total interest expense	43,308	29,980	118,195	89,634
Net interest income				
Other income	100,147	85,263	288,864	262,265
Share of profits from associate	32,553	25,078	85,015	74,383
	1,404	891	6,220	7,237
Net interest income and other income	134,104	111,232	380,099	343,885
Provision for credit losses	4	7,313	4,272	17,764
Net interest income after provision for credit losses	126,791	106,960	362,335	331,066
Operating expenses				
Personnel	48,034	51,139	147,258	143,473
General	19,808	12,750	52,193	35,162
Occupancy	5,285	5,099	15,448	15,454
Member security	3,426	3,244	10,311	9,967
Depreciation	3,151	3,451	9,698	10,476
Organization	1,397	1,353	3,311	3,733
Impairment of assets	199	348	575	969
Amortization	2,481	1,612	6,631	4,860
Total operating expenses	83,781	78,996	245,425	224,094
Income before patronage allocation to members and income taxes				
	43,010	27,964	116,910	106,972
Patronage allocation to members	8,002	6,993	23,916	20,981
Income before income taxes	35,008	20,971	92,994	85,991
Income taxes	9,740	6,203	25,397	23,059
Net income	\$ 25,268	\$ 14,768	\$ 67,597	\$ 62,932
Other comprehensive income (loss)				
	1,035	(719)	8,489	(767)
Total comprehensive income	\$ 26,303	\$ 14,049	\$ 76,086	\$ 62,165
Other comprehensive income (loss) for the period, net of tax:				
Share of other comprehensive income (loss) from associate				
Actuarial (loss) gain on defined benefit pension plans ⁽¹⁾ (net of income tax (recovery) expense of \$(40), 2017 - \$8)	-	-	(108)	23
Unrealized gain (loss) and reclassification adjustments on available for sale securities (net of income tax expense (recovery) of \$3,179, 2017 - \$(284) ⁽²⁾)	1,035	(719)	8,597	(790)
Total other comprehensive income (loss)	\$ 1,035	\$ (719)	\$ 8,489	\$ (767)
Total comprehensive income				
Comprehensive income attributable to members	26,309	14,051	76,120	62,160
Comprehensive (loss) income attributable to non-controlling interest	(6)	(2)	(34)	5
Total comprehensive income	\$ 26,303	\$ 14,049	\$ 76,086	\$ 62,165

⁽¹⁾ The actuarial gains/losses will not be reclassified to profit or loss at a future date.

⁽²⁾ 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, 2016	\$ 523,247	\$ 115,816	\$ 697,883	\$ 683	\$ 1,011	\$ 1,338,640
Changes in equity						
Issues of share capital	25,680	-	-	-	-	25,680
Redemption of share capital	(26,039)	(2,543)	-	-	-	(28,582)
Net income	-	-	62,927	-	5	62,932
Share of other comprehensive loss from associate	-	-	-	(767)	-	(767)
Balance at July 31, 2017	\$ 522,888	\$ 113,273	\$ 760,810	\$ (84)	\$ 1,016	\$ 1,397,903

	Common Shares	Investment Shares	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Non-controlling Interest	Total Equity
Balance at October 31, 2017	\$ 541,472	\$ 118,127	\$ 763,636	\$ (144)	\$ 1,022	\$ 1,424,113
Changes in equity						
Issues of share capital	17,213	-	-	-	-	17,213
Redemption of share capital	(27,373)	(3,392)	-	-	-	(30,765)
Net income (loss)	-	-	67,631	-	(34)	67,597
Fair value adjustment for investments	-	-	-	(833)	-	(833)
Share of other comprehensive income from associate	-	-	-	9,322	-	9,322
Balance at July 31, 2018	\$ 531,312	\$ 114,735	\$ 831,267	\$ 8,345	\$ 988	\$ 1,486,647

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

	Nine months ended July 31 2018	Nine months ended July 31 2017
Cash flows from (used in) operating activities		
Net income	\$ 67,597	\$ 62,932
Adjustments for non-cash items and others		
Net interest income	(288,864)	(262,265)
Provision for credit losses	17,764	12,819
Share of profits from investment in associate	(6,220)	(7,237)
Depreciation and amortization	16,329	15,336
Impairment of assets	575	969
Gain from amalgamations	(4,199)	-
Gain on assets held for sale	(223)	(1,771)
(Gain) loss on property and equipment	(196)	307
Loss on intangible assets	33	177
Income taxes	25,397	23,059
Adjustments for net changes in operating assets and liabilities		
Change in members' loans	(478,344)	(282,826)
Change in members' deposits	133,363	133,253
Change in assets held for sale	(10,767)	(14,359)
Net change in other assets, provisions, and trade payables and other liabilities	14,180	29,355
Income taxes received and (paid), net	(16,189)	(22,505)
Interest received	402,467	352,173
Interest paid	(113,572)	(96,721)
Net cash used in operating activities	(240,869)	(57,304)
Cash flows from (used in) investing activities		
Additions to intangible assets	(30,883)	(1,980)
Additions to property and equipment, and investment property	(4,126)	(3,748)
Proceeds on disposal of property and equipment, and investment property	1,269	39
Proceeds on disposal of assets held for sale	12,172	18,864
Purchase of Alberta Central shares	(1,950)	-
Distributions from Alberta Central	10,456	9,425
Change in derivatives	24,951	1,663
Investments	(210,167)	(82,953)
Net cash used in investing activities	(198,278)	(58,690)
Cash flows from (used in) financing activities		
Term loans and lines of credit	150,000	(76,000)
Advances of secured borrowing	606,286	441,821
Repayment of secured borrowing	(314,099)	(259,159)
Shares issued	17,213	25,680
Shares redeemed	(30,765)	(28,582)
Net cash from financing activities	428,635	103,760
Decrease in cash and cash equivalents	(10,512)	(12,234)
Cash and cash equivalents, beginning of period	104,118	102,002
Cash and cash equivalents, end of period	\$ 93,606	\$ 89,768

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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. ("Servus" or the "Credit Union") 2017 audited annual consolidated financial statements.

These interim condensed consolidated financial statements were approved by the Audit and Finance Committee on September 27, 2018.

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' 2017 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 2017 annual financial statements.

2. ACCOUNTING POLICIES

These interim condensed consolidated financial statements have been prepared following the same accounting policies and methods as those used in preparing Servus' 2017 annual consolidated financial statements.

3. MEMBERS' LOANS

	Gross Amount	Specific Allowance	Collective Allowance	Net Amount	Impaired Loans
As at July 31, 2018					
Residential mortgages	\$ 8,135,594	\$ 426	\$ 1,065	\$ 8,134,103	\$ 1,462
Commercial mortgages and loans	4,425,035	19,951	5,012	4,400,072	26,435
Consumer loans	1,244,262	6,732	13,997	1,223,533	7,752
Agricultural mortgages and loans	383,977	269	139	383,569	1,243
	14,188,868	27,378	20,213	14,141,277	36,892
Accrued interest	45,097	1,557	710	42,830	-
Total	\$ 14,233,965	\$ 28,935	\$ 20,923	\$ 14,184,107	\$ 36,892

	Gross Amount	Specific	Collective	Net Amount	Impaired
As at October 31, 2017					
Residential mortgages	\$ 7,959,489	\$ 56	\$ 1,009	\$ 7,958,424	\$ 570
Commercial mortgages and loans	4,337,661	21,479	1,808	4,314,374	30,634
Consumer loans	996,818	2,384	7,539	986,895	3,936
Agricultural mortgages and loans	377,098	-	100	376,998	500
	13,671,066	23,919	10,456	13,636,691	35,640
Accrued interest	41,064	1,558	561	38,945	-
Total	\$ 13,712,130	\$ 25,477	\$ 11,017	\$ 13,675,636	\$ 35,640

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Notes to Interim Condensed Consolidated Financial Statements
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4. ALLOWANCE FOR CREDIT LOSSES

Specific Allowance

	Residential	Commercial	Consumer	Agricultural	Interest	Total
As at October 31, 2017	\$ 56	\$ 21,479	\$ 2,384	\$ -	\$ 1,558	\$ 25,477
Credit Card & Safeway CU opening Adjustment	-	-	2,416	-	-	2,416
Recoveries of previous loan write-offs	10	164	1,790	-	-	1,964
Allowance charged to net income	1,491	1,531	12,001	291	1,059	16,373
	1,557	23,174	18,591	291	2,617	46,230
Loans written off	(1,131)	(3,223)	(11,859)	(22)	(1,060)	(17,295)
As at July 31, 2018	\$ 426	\$ 19,951	\$ 6,732	\$ 269	\$ 1,557	\$ 28,935

	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	5	201	1,382	-	-	1,588
Allowance charged to net income	1,091	13,827	7,627	296	646	23,487
	1,517	27,484	11,999	367	2,116	43,483
Loans written off	(1,461)	(6,005)	(9,615)	(367)	(558)	(18,006)
As at October 31, 2017	\$ 56	\$ 21,479	\$ 2,384	\$ -	\$ 1,558	\$ 25,477

Collective Allowance

	Residential	Commercial	Consumer	Agricultural	Interest	Total
As at October 31, 2017	\$ 1,009	\$ 1,808	\$ 7,539	\$ 100	\$ 561	\$ 11,017
Credit Card & Safeway CU opening Adjustment	-	-	8,515	-	-	8,515
Allowance charged to net income	56	3,204	(2,057)	39	149	1,391
As at July 31, 2018	\$ 1,065	\$ 5,012	\$ 13,997	\$ 139	\$ 710	\$ 20,923

	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	(283)	(4,669)	(5,094)	83	(227)	(10,190)
As at October 31, 2017	\$ 1,009	\$ 1,808	\$ 7,539	\$ 100	\$ 561	\$ 11,017

SERVUS CREDIT UNION LTD.
Notes to Interim Condensed Consolidated Financial Statements
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5. CREDIT QUALITY OF MEMBERS' LOANS

The following analysis includes individual loans that are impaired, or potentially impaired, based on the 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 July 31, 2018</i>	Residential	Commercial	Consumer	Agricultural	Total
<i>Risk Categories</i>					
1 to 5 - Satisfactory risk	\$ -	\$ 4,332,254	\$ -	\$ 379,749	\$ 4,712,003
6 - Watch list	-	27,617	-	2,250	29,867
8 - Impaired risk - performing	-	31,662	-	-	31,662
7 and 9 - Unacceptable/impaired risk - non-performing	-	7,068	-	734	7,802
Loans without risk rating	8,134,132	-	1,236,510	-	9,370,642
Loans not impaired	8,134,132	4,398,601	1,236,510	382,733	14,151,976
Loans specifically impaired	1,462	26,435	7,752	1,243	36,892
Sub Total	8,135,594	4,425,036	1,244,262	383,976	14,188,868
Accrued interest	13,221	15,420	12,950	3,506	45,097
Total	\$ 8,148,815	\$ 4,440,456	\$ 1,257,212	\$ 387,482	\$ 14,233,965

<i>As at October 31, 2017</i>	Residential	Commercial	Consumer	Agricultural	Total
<i>Risk Categories</i>					
1 to 5 - Satisfactory risk	\$ -	\$ 4,282,832	\$ -	\$ 374,984	\$ 4,657,816
6 - Watch list	-	8,804	-	-	8,804
8 - Impaired risk - performing	-	3,319	-	170	3,489
7 and 9 - Unacceptable/impaired risk - non-performing	-	12,072	-	1,444	13,516
Loans without risk rating	7,958,919	-	992,882	-	8,951,801
Loans not impaired	7,958,919	4,307,027	992,882	376,598	13,635,426
Loans specifically impaired	570	30,634	3,936	500	35,640
Sub Total	7,959,489	4,337,661	996,818	377,098	13,671,066
Accrued interest	12,530	14,238	10,195	4,101	41,064
Total	\$ 7,972,019	\$ 4,351,899	\$ 1,007,013	\$ 381,199	\$ 13,712,130

- **Risk Rating 6:** This category includes accounts where there is not a risk for principal or interest at present, but the performance trend is negative and unless reversed could lead to losses for Servus. This is a transitional rating since 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. The 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:** This category uses the same criteria that are established for Risk 7, but there is deterioration in the 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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5. CREDIT QUALITY OF MEMBERS' LOANS (CONTINUED)

Loans past due, as at July 31, 2018

	Residential	Commercial	Consumer	Agricultural	Total
Past due up to 29 days	\$ 122,764	\$ 17,432	\$ 30,447	\$ 3,146	\$ 173,789
Past due 30 - 59 days	46,867	75,165	13,124	4,043	139,199
Past due 60 - 89 days	19,709	6,635	6,687	1,470	34,501
Past due over 90 days	27,684	62,844	11,232	3,784	105,544
Total	\$ 217,024	\$ 162,076	\$ 61,490	\$ 12,443	\$ 453,033

Loans past due, as at October 31, 2017

	Residential	Commercial	Consumer	Agricultural	Total
Past due up to 29 days	\$ 108,702	\$ 12,024	\$ 15,432	\$ 3,185	\$ 139,343
Past due 30 - 59 days	42,700	17,986	7,127	423	68,236
Past due 60 - 89 days	17,417	2,351	2,576	30	22,374
Past due over 90 days	20,795	36,184	3,840	2,092	62,911
Total	\$ 189,614	\$ 68,545	\$ 28,975	\$ 5,730	\$ 292,864

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 July 31, 2018

	Residential	Commercial	Consumer	Agricultural	Total
Past due up to 29 days	\$ 122,764	\$ 15,165	\$ 30,118	\$ 3,146	\$ 171,193
Past due 30 - 59 days	46,867	73,822	13,028	4,043	137,760
Past due 60 - 89 days	19,709	5,931	6,542	1,470	33,652
Past due over 90 days	26,222	45,881	4,099	2,547	78,749
Total	\$ 215,562	\$ 140,799	\$ 53,787	\$ 11,206	\$ 421,354

Loans past due but not impaired, as at October 31, 2017

	Residential	Commercial	Consumer	Agricultural	Total
Past due up to 29 days	\$ 108,702	\$ 11,755	\$ 15,389	\$ 3,185	\$ 139,031
Past due 30 - 59 days	42,700	17,836	6,823	423	67,782
Past due 60 - 89 days	17,417	1,627	2,326	30	21,400
Past due over 90 days	20,225	9,672	932	1,591	32,420
Total	\$ 189,044	\$ 40,890	\$ 25,470	\$ 5,229	\$ 260,633

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 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 July 31 2018	As at October 31 2017
Loans by security:		
Insured loans and mortgages	\$ 2,773,766	\$ 2,759,164
Secured by mortgage	9,317,685	8,900,893
Secured by other	1,064,498	1,238,908
Unsecured	1,078,016	813,165
Total	\$ 14,233,965	\$ 13,712,130

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6. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

As at July 31, 2018	Equity-linked Options	Embedded Purchase Option	Interest Rate Swaps	Total
Derivative Financial Asset amounts not subject to enforceable netting arrangements	\$ 10,252	\$ -	\$ -	\$ 10,252
<i>Derivative Financial Liabilities</i>				
Gross amounts of financial assets before statement of financial position offsetting	\$ -	\$ -	\$ (5,555)	\$ (5,555)
Gross amounts of financial liabilities before statement of financial position offsetting	-	-	11,913	11,913
Net amount of financial liabilities presented on the statement of financial position	-	-	6,358	6,358
Amounts not subject to enforceable netting arrangements	10,156	-	-	10,156
Total	\$ 10,156	\$ -	\$ 6,358	\$ 16,514

As at October 31, 2017	Equity-linked Options	Embedded Purchase Option	Interest Rate Swaps	Total
<i>Derivative Financial Assets</i>				
Gross amounts of financial assets before statement of financial position offsetting	\$ -	\$ -	\$ 8,575	\$ 8,575
Gross amounts of financial liabilities before statement of financial position offsetting	-	-	(7,918)	(7,918)
Net amount of financial assets presented on the statement of financial position	-	-	657	657
Amounts not subject to enforceable netting arrangements	7,958	23,080	-	31,038
Total	\$ 7,958	\$ 23,080	\$ 657	\$ 31,695
<i>Derivative Financial Liabilities</i>				
Gross amounts of financial assets before statement of financial position offsetting	\$ -	\$ -	\$ (11,733)	\$ (11,733)
Gross amounts of financial liabilities before statement of financial position offsetting	-	-	16,850	16,850
Net amount of financial assets presented on the statement of financial position	-	-	5,117	5,117
Amounts not subject to enforceable netting arrangements	7,889	-	-	7,889
Total	\$ 7,889	\$ -	\$ 5,117	\$ 13,006

SERVUS CREDIT UNION LTD.
Notes to Interim Condensed Consolidated Financial Statements
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6. 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 July 31 2018	As at October 31 2017
Interest rate swaps					
receive fixed, pay floating	\$ -	\$ 700,000	\$ 300,000	\$ 1,000,000	\$ 1,000,000
Equity-linked options	-	17,020	70,855	87,875	80,615
Total	\$ -	\$ 717,020	\$ 370,855	\$ 1,087,875	\$ 1,080,615

Equity-linked Options

Equity-linked options are used to fix costs on term deposit products that 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.

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 increase in interest rates, the fair value of all interest rate swaps for the Credit Union are presented as a liability on the financial position.

7. 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, such as property and equipment and investment in associate.

	As at July 31, 2018			
	Note	Carrying Value	Fair Value	Fair Value Difference
Financial Instrument Assets				
Cash and cash equivalents	a	\$ 93,606	\$ 93,606	-
Interest bearing deposits with financial institutions	c	1,222,181	1,221,029	(1,152)
Assets at amortized cost	e	2,284	2,284	-
Assets at fair value through OCI	f	177,341	177,341	-
Assets at fair value through profit or loss	d	10,252	10,252	-
Members' loans	b,c	14,184,107	14,115,624	(68,483)
Other	a	12,230	12,230	-
		15,702,001	15,632,366	(69,635)
Financial Instrument Liabilities				
Members' deposits	b,c	12,759,296	12,749,117	10,179
Liabilities at fair value through profit or loss	d	16,401	16,401	-
Borrowings	a	250,000	250,000	-
Secured borrowings	c	1,385,475	1,359,113	26,362
Trade payables and other liabilities	a	201,351	201,351	-
		\$ 14,612,523	\$ 14,575,982	\$ 36,541

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

7. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

As at October 31, 2017

	Note	Carrying Value	Fair Value	Fair Value Difference
Financial Instrument Assets				
Cash and cash equivalents	a	\$ 104,118	\$ 104,118	-
Interest bearing deposits with financial institutions	c	1,180,660	1,180,634	(26)
Assets at amortized cost	e	794	794	-
Assets at fair value through profit or loss	d	31,695	31,695	-
Members' loans	b,c	13,675,636	13,606,998	(68,638)
Other	a	6,668	6,668	-
		<u>14,999,571</u>	<u>14,930,907</u>	<u>(68,664)</u>
Financial Instrument Liabilities				
Members' deposits	b,c	12,560,063	12,555,294	4,769
Liabilities at fair value through profit or loss	d	13,006	13,006	-
Borrowings	a	100,000	100,000	-
Secured borrowings	c	1,093,288	1,083,871	9,417
Trade payables and other liabilities	a	176,900	176,900	-
		<u>\$ 13,943,257</u>	<u>\$ 13,929,071</u>	<u>14,186</u>

(a) The fair values of cash, other financial assets, borrowings 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 and member deposits are assumed to equal their book values since the interest rates automatically reprice to market.

(c) The estimated fair values of interest-bearing deposits with financial institutions, fixed-rate member loans, fixed-rate member deposits and secured borrowings are determined by discounting the expected future cash flows of these loans and deposits based on yield curves of financial assets and liabilities with similar terms and credit risks.

(d) The fair values of derivative financial instruments and mortgage-backed securities bonds are calculated based on valuation techniques using inputs reflecting market conditions at a specific point in time and may not be reflective of future fair values.

(e) The fair values of assets at amortized cost are assumed to equal their book values since a fair value adjustment cannot be supported because there is no available market to purchase the assets.

(f) The fair value of mortgage backed security bonds is based on quoted market prices for identical bonds traded in an active market.

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7. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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 July 31, 2018	Level 1	Level 2	Level 3	Total
Derivative assets	\$ -	\$ 10,252	\$ -	\$ 10,252
Mortgage-backed securities bonds	177,341	-	-	177,341
Financial assets held at fair value	\$ 177,341	\$ 10,252	\$ -	\$ 187,593
Member shares - Series E	-	(429)	-	(429)
Derivative liabilities	-	(16,514)	-	(16,514)
Financial liabilities held at fair value	\$ -	\$ (16,943)	\$ -	\$ (16,943)

Fair value measurements using Level 3 inputs

Balance at October 31, 2017	\$ 23,080
Loss included in profit and loss	(1,613)
Purchase option exercised for embedded derivative asset	(21,467)
Balance at July 31, 2018	\$ -

As at October 31, 2017	Level 1	Level 2	Level 3	Total
Derivative assets	\$ -	\$ 8,615	\$ -	\$ 8,615
Embedded derivative assets	-	-	23,080	23,080
Financial assets held at fair value	\$ -	\$ 8,615	\$ 23,080	\$ 31,695
Member shares - Series E	-	(415)	-	(415)
Derivative liabilities	-	(13,006)	-	(13,006)
Financial liabilities held at fair value	\$ -	\$ (13,421)	\$ -	\$ (13,421)

Fair value measurements using Level 3 inputs

Balance at October 31, 2016	\$ 21,262
Gain included in profit and loss	1,818
Balance at October 31, 2017	\$ 23,080

8. SIGNIFICANT CHANGES IN THE CURRENT REPORTING PERIOD

On July 27 and July 30, 2018, Servus purchased \$82.37 million and \$97.14 million respectively of mortgage-backed securities (MBS) bonds. The MBS bonds are classified as available for sale at initial recognition and recorded within investments in the interim condensed consolidated statement of financial position. The MBS bonds had a net unrealized loss of \$833 recorded in other comprehensive income.