

SERVUS CREDIT UNION LTD.

Interim Condensed Consolidated Financial Statements

For the three and six months ended

April 30, 2022

(unaudited)

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

Interim Condensed Consolidated Financial Statements	2
Notes to the Interim Condensed Consolidated Financial Statements	
1. Basis of Presentation.....	7
2. Accounting Policies	7
3. Investments	7
4. Members' Loans	8
5. Allowance for Credit Losses.....	8
6. Credit Quality of Members' Loans	13
7. Derivative Financial Assets and Liabilities	15
8. Investment Income	16
9. Fair Value of Financial Instruments	16
10. Comparative Figures	18
11. Events after the Reporting Period	19

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

	Notes	April 30 2022	October 31 2021
Assets			
Cash and cash equivalents		\$ 328,290	\$ 603,208
Investments	3	1,367,718	1,036,401
Members' loans	4	15,692,224	15,314,479
Income taxes receivable		81	-
Assets held for sale		2,012	3,099
Other assets		31,931	33,689
Property and equipment		131,654	134,625
Leased assets		58,059	56,506
Investment property		5,801	5,908
Derivative financial assets	7	9,938	9,507
Investment in associate		205,387	199,886
Intangible assets		55,471	57,644
Deferred income tax assets		355	-
Total assets		17,888,921	17,454,952
Liabilities			
Borrowings		200,000	200,000
Securitization liabilities		724,867	766,784
Members' deposits		14,839,777	14,380,795
Trade payables and other liabilities		211,758	228,289
Lease liabilities		64,460	62,373
Income taxes payable		-	4,958
Allowance for off balance sheet credit instruments	4,5	4,449	5,578
Derivative financial liabilities	7	39,542	25,567
Investment shares		443	430
Defined benefit plans		5,483	5,516
Deferred income tax liabilities		10,566	10,580
Total liabilities		16,101,345	15,690,870
Equity			
Share capital		680,393	702,690
Retained earnings		1,097,780	1,050,939
Accumulated other comprehensive income		9,403	10,453
Total equity		1,787,576	1,764,082
Total liabilities and equity		\$ 17,888,921	\$ 17,454,952

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 April 30 2022	Three months ended April 30 2021	Six months ended April 30 2022	Six months ended April 30 2021
Interest income				
Members' loans	\$ 127,682	\$ 125,893	\$ 256,357	\$ 258,273
Investments, including derivatives	8 (10,492)	(2,985)	(9,505)	(1,172)
Total interest income	117,190	122,908	246,852	257,101
Interest expense				
Members' deposits	17,593	21,427	33,871	47,966
Other interest expense	4,652	7,397	9,474	15,403
Total interest expense	22,245	28,824	43,345	63,369
Net interest income				
Other income	94,945	94,084	203,507	193,732
Share of profits from associate	36,382	36,728	71,194	67,723
	905	466	1,908	131
Net interest income and other income	132,232	131,278	276,609	261,586
Provision for (recovery of) credit losses	5 358	(8,808)	(799)	(4,492)
Net interest income and other income after provision for (recovery of) credit losses	131,874	140,086	277,408	266,078
Operating expenses				
Personnel	57,867	56,293	117,593	106,722
General	25,824	23,074	50,142	43,011
Occupancy	4,303	4,356	8,546	8,340
Member security	2,602	2,450	5,121	4,869
Depreciation	4,514	4,510	9,062	8,950
Organization	1,169	639	2,457	2,094
Impairment of assets	237	172	306	500
Amortization	2,781	2,951	5,615	6,042
Total operating expenses	99,297	94,445	198,842	180,528
Income before patronage allocation to members and income taxes				
	32,577	45,641	78,566	85,550
Patronage allocation to members	8,879	8,502	17,751	16,920
Income before income taxes	23,698	37,139	60,815	68,630
Income taxes	5,437	6,292	13,974	13,539
Net income	\$ 18,261	\$ 30,847	\$ 46,841	\$ 55,091

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 April 30 2022	Three months ended April 30 2021	Six months ended April 30 2022	Six months ended April 30 2021
Net income	\$ 18,261	\$ 30,847	\$ 46,841	\$ 55,091
Other comprehensive loss for the year, net of tax:				
Items that will not be reclassified to profit or loss:				
<i>Share of other comprehensive (loss) income from associate</i>				
Actuarial (loss) gain on defined benefit pension plans ⁽¹⁾	(88)	-	18	(134)
Change in unrealized (loss) gain on equity securities at fair value through other comprehensive income securities ⁽²⁾				
	(536)	(3)	3,541	(172)
Items that may be reclassified subsequently to profit or loss:				
<i>Share of other comprehensive (loss) income from associate</i>				
Change in unrealized loss on debt securities at fair value through other comprehensive income securities ⁽³⁾	(3,739)	(803)	(4,858)	(1,495)
Reclassification adjustments for realized (loss) gain on debt securities ⁽⁴⁾	(31)	102	249	141
Total other comprehensive loss	\$ (4,394)	\$ (704)	\$ (1,050)	\$ (1,660)
Total comprehensive income	\$ 13,867	\$ 30,143	\$ 45,791	\$ 53,431

⁽¹⁾ Net of income tax (recovery) expense for the three months ended April 30, 2022 of \$(26), for the six months ended April 30, 2022 of \$6 (2021 - \$(40))

⁽²⁾ Net of income tax (recovery) expense for the three months ended April 30, 2022 of \$(160) (2021 - \$(1)), for the six months ended April 30, 2022 of \$1,057 (2021 - \$(52))

⁽³⁾ Net of income tax (recovery) for the three months ended April 30, 2022 of \$(1,117) (2021 - \$(239)), for the six months ended April 30, 2022 of \$(1,451) (2021 - \$(446))

⁽⁴⁾ Net of income tax (recovery) expense for the three months ended April 30, 2022 of \$(9) (2021 - \$30), for the six months ended April 30, 2022 of \$75 (2021 - \$42)

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SERVUS CREDIT UNION LTD.
Interim Condensed Consolidated Statement of Changes in Equity
(Canadian \$ thousands)
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	Share Capital			Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
	Common Shares	Investment Shares	Total Share Capital			
Balance at October 31, 2020	\$ 566,375	\$ 120,174	\$ 686,549	\$ 954,279	\$ 12,373	\$ 1,653,201
Changes in equity						
Issues of share capital	21,101	-	21,101	-	-	21,101
Redemption of share capital	(23,644)	(3,055)	(26,699)	-	-	(26,699)
Net income	-	-	-	55,091	-	55,091
Share of other comprehensive loss from associate	-	-	-	-	(1,660)	(1,660)
Balance at April 30, 2021	\$ 563,832	\$ 117,119	\$ 680,951	\$ 1,009,370	\$ 10,713	\$ 1,701,034

	Share Capital			Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
	Common Shares	Investment Shares	Total Share Capital			
Balance at October 31, 2021	\$ 582,375	\$ 120,315	\$ 702,690	\$ 1,050,939	\$ 10,453	\$ 1,764,082
Changes in equity						
Issues of share capital	10,659	-	10,659	-	-	10,659
Redemption of share capital	(28,870)	(4,086)	(32,956)	-	-	(32,956)
Net income	-	-	-	46,841	-	46,841
Share of other comprehensive loss from associate	-	-	-	-	(1,050)	(1,050)
Balance at April 30, 2022	\$ 564,164	\$ 116,229	\$ 680,393	\$ 1,097,780	\$ 9,403	\$ 1,787,576

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

	Six months ended April 30 2022	Six months ended April 30 2021
Cash flows from (used in) operating activities		
Net income	\$ 46,841	\$ 55,091
Adjustments for non-cash items and others		
Net interest income ⁽¹⁾	(203,507)	(193,732)
Recovery of credit losses	(799)	(4,492)
Share of profits from investment in associate	(1,908)	(131)
Depreciation	9,062	8,950
Amortization	5,615	6,042
Impairment of assets	306	500
Gain on leased assets	(3)	(21)
Gain on assets held for sale	(144)	(122)
(Gain) loss on disposal of property and equipment	(18)	337
Gain on loan modifications	-	(2,596)
Income taxes	13,974	13,539
Adjustments for net changes in operating assets and liabilities		
Change in members' loans	(378,354)	(256,125)
Change in members' deposits	458,159	341,144
Change in assets held for sale	(697)	(5,839)
Change in derivatives, net	13,544	13,701
Change in other assets, provisions, and trade payables and other liabilities, net	(4,483)	(7,591)
Income taxes paid, net	(19,382)	(12,165)
Interest received	246,046	290,860
Interest paid	(41,986)	(83,797)
Net cash from operating activities	142,266	163,553
Cash flows from (used in) investing activities		
Additions to intangible assets	(3,442)	(4,549)
Additions to property and equipment, and investment property	(2,941)	(4,663)
Proceeds on disposal of property and equipment, and investment property	55	63
Proceeds on disposal of assets held for sale	1,622	7,342
Purchase of Alberta Central shares	(7,196)	(8,418)
Distributions from Alberta Central	2,239	3,287
(Purchase of) proceeds from investments, net	(330,232)	8,053
Net cash (used in) from investing activities	(339,895)	1,115
Cash flows from (used in) financing activities		
Advances of securitization liabilities	114,957	41,637
Repayments of securitization liabilities	(167,292)	(289,948)
Repayments of principal portion of lease liabilities	(2,657)	(2,551)
Shares issued	10,659	21,101
Shares redeemed	(32,956)	(26,699)
Net cash used in financing activities	(77,289)	(256,460)
Decrease in cash and cash equivalents	(274,918)	(91,792)
Cash and cash equivalents, beginning of period	603,208	188,954
Cash and cash equivalents, end of period	\$ 328,290	\$ 97,162

⁽¹⁾ Net interest income includes a fair value loss on derivatives for the six month ended April 30, 2022 of \$13,095 (2021 - \$6,714)

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. ("Servus" or the "Credit Union") 2021 audited annual consolidated financial statements.

These interim condensed consolidated financial statements were approved by the Audit and Finance Committee on June 22, 2022.

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 are best estimates undertaken in accordance with the applicable standards and are reviewed on a continuous basis.

Estimates and assumptions have been used in the following areas: income taxes; deferred tax assets and liabilities; fair values of financial instruments; expected credit losses (ECL); measurement of provisions; the useful lives of property, equipment, and intangible assets; valuation of leased assets and lease liabilities; credit card points liability; defined benefit plans; and the fair value less costs to sell for assets held for sale. Actual results may differ significantly from these estimates, and the impact of any such differences will be recorded in future periods.

Critical judgments have been made in the following areas: impairment of non-financial assets, modification and derecognition of assets, ECL, classification and valuation of financial instruments, valuation of leased assets and lease liabilities, consolidation of structured entities and accounting for investment in associate.

The COVID-19 pandemic continues to have an impact on judgments as well as significant estimates and assumptions made by management in preparing the interim condensed consolidated financial statements. Refer to Note 5 for more information on significant judgments made to estimate the ECL.

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' 2021 annual consolidated financial statements, with the exception of Interest Rate Benchmark Reform Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 ("the Phase 2 amendments"). The adoption of these amendments effective November 1, 2021 have no impact on the financial statements.

3. INVESTMENTS

	As at	As at
	April 30	October 31
	2022	2021
Term deposits with Alberta Central	\$ 1,365,773	\$ 1,035,562
Other	309	288
	1,366,082	1,035,850
Accrued interest	1,637	552
	1,367,719	1,036,402
ECL allowance on investments	(1)	(1)
Total	\$ 1,367,718	\$ 1,036,401

SERVUS CREDIT UNION LTD.
Notes to Interim Condensed Consolidated Financial Statements
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4. MEMBERS' LOANS

The following table presents the carrying amount of loans 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:

	Performing		Impaired		Total	Allowance for Credit Losses	Total Net of Allowance
	Stage 1	Stage 2	Stage 3				
As at April 30, 2022							
Residential mortgages	\$ 8,188,079	\$ 461,492	\$ 11,078	\$ 8,660,649	\$ 4,088	\$ 8,656,561	
Commercial and agriculture	5,843,572	126,222	36,609	6,006,403	21,536	5,984,867	
Consumer and credit card	991,526	67,710	2,801	1,062,037	11,241	1,050,796	
Total members' loans	\$ 15,023,177	\$ 655,424	\$ 50,488	\$ 15,729,089	\$ 36,865	\$ 15,692,224	

As at April 30, 2021							
Residential mortgages	\$ 2,170,144	\$ 18,583	\$ 3,778	\$ 2,192,505	\$ 317	\$ 2,192,188	
Commercial and agriculture	1,502,375	9,363	194	1,511,932	864	1,511,068	
Consumer and credit card	1,100,543	18,479	840	1,119,862	3,268	1,116,594	
Total off balance sheet credit instruments	\$ 4,773,062	\$ 46,425	\$ 4,812	\$ 4,824,299	\$ 4,449	\$ 4,819,850	

	Performing		Impaired		Total	Allowance for Credit Losses	Total Net of Allowance
	Stage 1	Stage 2	Stage 3				
As at October 31, 2021							
Residential mortgages	\$ 8,132,740	\$ 503,687	\$ 9,124	\$ 8,645,551	\$ 4,996	\$ 8,640,555	
Commercial and agriculture	5,439,573	177,727	37,707	5,655,007	23,136	5,631,871	
Consumer and credit card	978,675	72,402	2,504	1,053,581	11,528	1,042,053	
Total members' loans	\$ 14,550,988	\$ 753,816	\$ 49,335	\$ 15,354,139	\$ 39,660	\$ 15,314,479	

As at October 31, 2020							
Residential mortgages	\$ 2,107,012	\$ 15,253	\$ 837	\$ 2,123,102	\$ 379	\$ 2,122,723	
Commercial and agriculture	1,338,754	4,402	141	1,343,297	896	1,342,401	
Consumer and credit card	1,066,550	15,595	626	1,082,771	4,303	1,078,468	
Total off balance sheet credit instruments	\$ 4,512,316	\$ 35,250	\$ 1,604	\$ 4,549,170	\$ 5,578	\$ 4,543,592	

5. ALLOWANCE FOR CREDIT LOSSES

Key Data and Assumptions

Estimating the allowance for ECL is based on a set of inputs, assumptions and methodologies placed around credit risk and future looking macroeconomic 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 at April 30, 2022.

These inputs and assumptions are assessed each reporting period considering both positive and negative aspects of the current economic environment. ECL models use some 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 ECLs. The main areas where judgment is used in the ECL 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 macroeconomic indicators (FLI) and the weightings to be used on the base, best and worst case scenarios for the FLIs.

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.

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5. ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

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. Sensitivities around the weights of the FLIs are also performed each reporting period by assessing the forecasts for each of the best, base and worst-case scenarios and determining the probability of each scenario. At April 30, 2022, management concluded that weighting to be used is a 60% base, 20% best and 20% worst-case (October 31, 2021 - 60% base, 20% best and 20% worst-case).

Where a sensitivity analysis shows that the loan book has a risk that is not adequately covered by the model calculation, the sensitivity is used to provide 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 April 30, 2022, management has applied an overlay of \$3.5 million (October 31, 2021 - \$3.5 million) on the commercial, consumer, residential mortgages, and credit card book.

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

	Residential Mortgages	Commercial and Agriculture	Consumer and Credit Card	Total
As at October 31, 2021	\$ 5,375	\$ 24,032	\$ 15,831	\$ 45,238
Recoveries of previous loan write-offs	-	69	2,585	2,654
(Recovery) provision charged to net income	(734)	(459)	394	(799)
	4,641	23,642	18,810	47,093
Loans written off	(236)	(1,242)	(4,301)	(5,779)
As at April 30, 2022	\$ 4,405	\$ 22,400	\$ 14,509	\$ 41,314
Presented on Interim Condensed Consolidated Statement of Financial Position as:				
Netted with members' loans	4,088	21,536	11,241	36,865
Off balance sheet credit instruments ⁽¹⁾	317	864	3,268	4,449
Total	\$ 4,405	\$ 22,400	\$ 14,509	\$ 41,314

	Residential Mortgages	Commercial and Agriculture	Consumer and Credit Card	Total
As at October 31, 2020	\$ 7,343	\$ 45,260	\$ 21,893	\$ 74,496
Recoveries of previous loan write-offs	25	421	5,519	5,965
Provision (recovery) charged to net income	1,674	(14,337)	(900)	(13,563)
	9,042	31,344	26,512	66,898
Loans written off	(3,667)	(7,312)	(10,681)	(21,660)
As at October 31, 2021	\$ 5,375	\$ 24,032	\$ 15,831	\$ 45,238
Presented on Interim Condensed Consolidated Statement of Financial Position as:				
Netted with members' loans	4,996	23,136	11,528	39,660
Off balance sheet credit instruments ⁽¹⁾	379	896	4,303	5,578
Total	\$ 5,375	\$ 24,032	\$ 15,831	\$ 45,238

⁽¹⁾ Off balance sheet credit instruments consisting of undrawn commitments and financial guarantees

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5. ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

The (recovery) provision charged to net income is:

	Six months ended April 30 2022	Six months ended April 30 2021
Loans	\$ (799)	\$ (4,493)
Investments	-	1
Recovery of credit losses	\$ (799)	\$ (4,492)

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, 2021	\$ 2,281	\$ 2,495	\$ 599	\$	5,375
Transfers					
Stage 1 ⁽¹⁾	119	(119)	-		-
Stage 2 ⁽¹⁾	(513)	524	(11)		-
Stage 3 ⁽¹⁾	(164)	(90)	254		-
New originations ⁽²⁾	221	194	-		415
Repayments ⁽³⁾	(141)	(146)	(122)		(409)
Remeasurements ⁽⁴⁾	52	(828)	36		(740)
Loans written off	-	-	(236)		(236)
As at April 30, 2022	\$ 1,855	\$ 2,030	\$ 520	\$	4,405
Presented on Interim Condensed Consolidated Statement of Financial Position as:					
Netted with members' loans	1,587	1,982	519		4,088
Off balance sheet credit instruments	268	48	1		317
Total	\$ 1,855	\$ 2,030	\$ 520	\$	4,405

	Performing		Impaired		Total
	Stage 1	Stage 2	Stage 3		
As at October 31, 2020	\$ 1,996	\$ 3,858	\$ 1,489	\$	7,343
Transfers					
Stage 1 ⁽¹⁾	460	(458)	(2)		-
Stage 2 ⁽¹⁾	(1,845)	2,060	(215)		-
Stage 3 ⁽¹⁾	(219)	(1,145)	1,364		-
New originations ⁽²⁾	643	607	-		1,250
Repayments ⁽³⁾	(337)	(337)	(821)		(1,495)
Remeasurements ⁽⁴⁾	1,583	(2,090)	2,426		1,919
Loans written off	-	-	(3,667)		(3,667)
Recoveries	-	-	25		25
As at October 31, 2021	\$ 2,281	\$ 2,495	\$ 599	\$	5,375
Presented on Interim Condensed Consolidated Statement of Financial Position as:					
Netted with members' loans	1,968	2,430	598		4,996
Off balance sheet credit instruments	313	65	1		379
Total	\$ 2,281	\$ 2,495	\$ 599	\$	5,375

⁽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 excludes 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 CREDIT LOSSES (CONTINUED)

Allowance for credit losses – Commercial and Agriculture

	Performing		Impaired		Total
	Stage 1	Stage 2	Stage 3		
As at October 31, 2021	\$ 4,342	\$ 3,493	\$ 16,197	\$	24,032
Transfers					
Stage 1 ⁽¹⁾	19	(19)	-		-
Stage 2 ⁽¹⁾	(181)	183	(2)		-
Stage 3 ⁽¹⁾	(361)	(211)	572		-
New originations ⁽²⁾	571	6	52		629
Repayments ⁽³⁾	(302)	(856)	(618)		(1,776)
Remeasurements ⁽⁴⁾	49	47	592		688
Loans written off	-	-	(1,242)		(1,242)
Recoveries	-	-	69		69
As at April 30, 2022	\$ 4,137	\$ 2,643	\$ 15,620	\$	22,400
Presented on Interim Condensed Consolidated Statement of Financial Position as:					
Netted with members' loans	3,365	2,606	15,565		21,536
Off balance sheet credit instruments	772	37	55		864
Total	\$ 4,137	\$ 2,643	\$ 15,620	\$	22,400

	Performing		Impaired		Total
	Stage 1	Stage 2	Stage 3		
As at October 31, 2020	\$ 7,728	\$ 14,471	\$ 23,085	\$	45,284
Transfers					
Stage 1 ⁽¹⁾	813	(811)	(2)		-
Stage 2 ⁽¹⁾	(1,950)	2,067	(117)		-
Stage 3 ⁽¹⁾	(900)	(3,545)	4,445		-
New originations ⁽²⁾	1,232	50	49		1,331
Repayments ⁽³⁾	(722)	(743)	(457)		(1,922)
Remeasurements ⁽⁴⁾	(1,859)	(7,996)	(3,915)		(13,770)
Loans written off	-	-	(7,312)		(7,312)
Recoveries	-	-	421		421
As at October 31, 2021	\$ 4,342	\$ 3,493	\$ 16,197	\$	24,032
Presented on Interim Condensed Consolidated Statement of Financial Position as:					
Netted with members' loans	3,485	3,479	16,172		23,136
Off balance sheet credit instruments	857	14	25		896
Total	\$ 4,342	\$ 3,493	\$ 16,197	\$	24,032

⁽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 excludes 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
(Canadian \$ thousands)
(unaudited)

5. ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

Allowance for credit losses – Consumer and Credit Card

	Performing		Impaired		Total
	Stage 1	Stage 2	Stage 3		
As at October 31, 2021	\$ 6,777	\$ 7,950	\$ 1,104	\$	15,831
Transfers					
Stage 1 ⁽¹⁾	225	(223)	(2)		-
Stage 2 ⁽¹⁾	(1,568)	1,597	(29)		-
Stage 3 ⁽¹⁾	(572)	(638)	1,210		-
New originations ⁽²⁾	1,241	207	1		1,449
Repayments ⁽³⁾	(270)	(199)	(83)		(552)
Remeasurements ⁽⁴⁾	(341)	(1,077)	915		(503)
Loans written off	-	-	(4,301)		(4,301)
Recoveries	-	-	2,585		2,585
As at April 30, 2022	\$ 5,492	\$ 7,617	\$ 1,400	\$	14,509
Presented on Interim Condensed Consolidated Statement of Financial Position as:					
Netted with members' loans	3,321	6,559	1,361		11,241
Off balance sheet credit instruments	2,171	1,058	39		3,268
Total	\$ 5,492	\$ 7,617	\$ 1,400	\$	14,509

	Performing		Impaired		Total
	Stage 1	Stage 2	Stage 3		
As at October 31, 2020	\$ 8,925	\$ 11,337	\$ 1,631	\$	21,893
Transfers					
Stage 1 ⁽¹⁾	1,057	(1,040)	(17)		-
Stage 2 ⁽¹⁾	(4,850)	5,096	(246)		-
Stage 3 ⁽¹⁾	(727)	(3,072)	3,799		-
New originations ⁽²⁾	2,924	676	1		3,601
Repayments ⁽³⁾	(983)	(820)	(2,668)		(4,471)
Remeasurements ⁽⁴⁾	431	(4,227)	3,766		(30)
Loans written off	-	-	(10,681)		(10,681)
Recoveries	-	-	5,519		5,519
As at October 31, 2021	\$ 6,777	\$ 7,950	\$ 1,104	\$	15,831
Presented on Interim Condensed Consolidated Statement of Financial Position as:					
Netted with members' loans	3,494	6,963	1,071		11,528
Off balance sheet credit instruments	3,283	987	33		4,303
Total	\$ 6,777	\$ 7,950	\$ 1,104	\$	15,831

⁽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 excludes 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
(Canadian \$ thousands)
(unaudited)

6. CREDIT QUALITY OF MEMBERS' LOANS

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

Risk Assessment	Residential Mortgage FICO Score Range	Consumer & Credit Card FICO Score Range	Commercial & Agriculture Risk Rating Range
Very low risk	800 +	800 +	1
Low risk	681 - 799	701 - 799	2 and 3
Medium risk	625 - 680	650 - 700	4 and 5
High risk/impaired	624 or less	649 or less	6 ,7, 8, and 9

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

As at April 30, 2022	Residential Mortgages	Commercial and Agriculture	Consumer and Credit Card	Total
Risk Categories				
Very low risk	\$ 3,446,158	\$ 32,920	\$ 279,741	\$ 3,758,819
Low risk	3,751,483	2,431,807	407,331	6,590,621
Medium risk	1,008,629	3,413,331	181,477	4,603,437
High risk	443,301	91,736	190,687	725,724
Impaired	11,078	36,609	2,801	50,488
Total members' loans	\$ 8,660,649	\$ 6,006,403	\$ 1,062,037	\$ 15,729,089

As at October 31, 2021	Residential Mortgages	Commercial and Agriculture	Consumer and Credit Card	Total
Risk Categories				
Very low risk	\$ 3,369,197	\$ 27,661	\$ 294,297	\$ 3,691,155
Low risk	3,745,741	2,255,221	412,635	6,413,597
Medium risk	1,047,651	3,200,714	179,254	4,427,619
High risk	473,838	133,704	164,891	772,433
Impaired	9,124	37,707	2,504	49,335
Total members' loans	\$ 8,645,551	\$ 5,655,007	\$ 1,053,581	\$ 15,354,139

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

As at April 30, 2022	Residential Mortgages	Commercial and Agriculture	Consumer and Credit Card	Total
Risk Categories				
Very low risk	\$ 1,057,285	\$ 149,580	\$ 638,148	\$ 1,845,013
Low risk	1,076,126	1,093,806	343,131	2,513,063
Medium risk	47,859	266,035	86,606	400,500
High risk	7,457	2,317	51,137	60,911
Impaired	3,778	194	840	4,812
Total off balance sheet credit instruments	\$ 2,192,505	\$ 1,511,932	\$ 1,119,862	\$ 4,824,299

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

6. CREDIT QUALITY OF MEMBERS' LOANS (CONTINUED)

As at October 31, 2021	Residential Mortgages	Commercial and Agriculture	Consumer and Credit Card	Total
Risk Categories				
Very low risk	\$ 1,018,692	\$ 148,711	\$ 599,418	\$ 1,766,821
Low risk	1,046,300	948,286	312,200	2,306,786
Medium risk	49,999	245,408	59,865	355,272
High risk	7,274	751	110,662	118,687
Impaired	837	141	626	1,604
Total off balance sheet credit instruments	\$ 2,123,102	\$ 1,343,297	\$ 1,082,771	\$ 4,549,170

Loans Past Due, as at April 30, 2022	Up to 30 Days	31 to 59 Days	60 to 89 Days	Over 90 Days	Total
Stage 1					
Residential mortgages	\$ 72,542	\$ -	\$ -	\$ -	\$ 72,542
Commercial and agriculture	34,370	-	-	-	34,370
Consumer and credit card	18,984	-	-	-	18,984
Stage 2					
Residential mortgages	33,435	12,250	9,314	7,068	62,067
Commercial and agriculture	5,833	3,350	5,302	23,703	38,188
Consumer and credit card	5,837	4,501	2,026	58	12,422
Stage 3					
Residential mortgages	-	-	-	10,894	10,894
Commercial and agriculture	250	90	65	21,149	21,554
Consumer and credit card	-	-	-	2,751	2,751
Total	\$ 171,251	\$ 20,191	\$ 16,707	\$ 65,623	\$ 273,772

Loans Past Due, as at October 31, 2021	Up to 30 Days	31 to 59 Days	60 to 89 Days	Over 90 Days	Total
Stage 1					
Residential mortgages	\$ 64,995	\$ -	\$ -	\$ -	\$ 64,995
Commercial and agriculture	8,532	-	-	-	8,532
Consumer and credit card	16,425	-	-	-	16,425
Stage 2					
Residential mortgages	27,744	33,195	9,529	10,113	80,581
Commercial and agriculture	7,297	23,476	20,543	47,641	98,957
Consumer and credit card	6,413	5,288	1,994	56	13,751
Stage 3					
Residential mortgages	-	-	-	8,986	8,986
Commercial and agriculture	236	71	109	21,478	21,894
Consumer and credit card	-	-	-	2,441	2,441
Total	\$ 131,642	\$ 62,030	\$ 32,175	\$ 90,715	\$ 316,562

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.

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

6. CREDIT QUALITY OF MEMBERS' LOANS (CONTINUED)

Loans by Security	As at April 30 2022	As at October 31 2021
Insured loans and mortgages	\$ 3,038,492	\$ 3,043,315
Secured by mortgage	11,235,900	10,879,690
Secured by other	897,381	892,306
Unsecured loans	334,704	318,493
Unsecured mastercard	222,612	220,335
Total	\$ 15,729,089	\$ 15,354,139

7. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

	As at April 30, 2022			As at October 31, 2021		
	Gross Financial Assets	Gross Financial Liabilities	Net	Gross Financial Assets	Gross Financial Liabilities	Net
Equity-linked options	\$ 9,938	\$ (9,813)	\$ 125	\$ 9,507	\$ (9,385)	\$ 122
Interest rate swaps	-	(29,729)	(29,729)	-	(16,182)	(16,182)
Total	\$ 9,938	\$ (39,542)	\$ (29,604)	\$ 9,507	\$ (25,567)	\$ (16,060)

As of April 30, 2022, 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 April 30 2022	As at October 31 2021
Interest rate swaps					
receive fixed, pay floating	\$ -	\$ 250,000	\$ 600,000	\$ 850,000	\$ 850,000
Equity-linked options	-	11,975	97,175	109,150	94,150
Total	\$ -	\$ 261,975	\$ 697,175	\$ 959,150	\$ 944,150

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 indices. 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 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 interim condensed consolidated statement of financial position.

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

8. INVESTMENT INCOME

	Three months ended April 30 2022	Three months ended April 30 2021	Six months ended April 30 2022	Six months ended April 30 2021
Investment Income				
Investment income on term deposits and other	\$ 2,218	\$ 1,766	\$ 3,417	\$ 3,812
Unrealized loss on derivative instruments	(12,466)	(5,464)	(13,063)	(6,616)
Realized (loss) gain on derivative instruments	(244)	713	141	1,632
Total	\$ (10,492)	\$ (2,985)	\$ (9,505)	\$ (1,172)

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 April 30, 2022	Note	Carrying Value	Fair Value	Fair Value Difference
Financial Instrument Assets				
Cash and cash equivalents	a	\$ 328,290	\$ 328,290	-
Interest bearing deposits with financial institutions	c,e	1,367,409	1,359,683	(7,726)
Assets at fair value through profit or loss	d	10,233	10,233	-
Members' loans	b,c,e	15,692,224	15,274,854	(417,370)
Other	a	11,429	11,429	-
Total financial instrument assets		17,409,585	16,984,489	(425,096)
Financial Instrument Liabilities				
Members' deposits	b,c	14,839,777	14,789,655	50,122
Liabilities at fair value through profit or loss	d	39,542	39,542	-
Borrowings	a	200,000	200,000	-
Securitization liabilities	c	724,867	712,718	12,149
Payables and other financial liabilities	a	204,027	204,027	-
Total financial instrument liabilities		\$ 16,008,213	\$ 15,945,942	\$ 62,271

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

9. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

As at October 31, 2021	Note	Carrying Value	Fair Value	Fair Value Difference
<i>Financial Instrument Assets</i>				
Cash and cash equivalents	a	\$ 603,208	\$ 603,208	\$ -
Interest bearing deposits with financial institutions	c,e	1,036,113	1,036,554	441
Assets at fair value through profit or loss	d	9,785	9,785	-
Members' loans	b,c,e	15,314,479	15,373,576	59,097
Other	a	12,134	12,134	-
Total financial instrument assets		16,975,719	17,035,257	59,538
<i>Financial Instrument Liabilities</i>				
Members' deposits	b,c	14,380,795	14,391,257	(10,462)
Liabilities at fair value through profit or loss	d	25,567	25,567	-
Borrowings	b	200,000	200,000	-
Securitization liabilities	c	766,784	779,625	(12,841)
Payables and other financial liabilities	a	220,573	220,573	-
Total financial instrument liabilities		\$ 15,593,719	\$ 15,617,022	\$ (23,303)

(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, member deposits and borrowings 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 securitization liabilities 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 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) Allowances, which are netted against the fair value determined as per footnote c and d, use forward-looking information in the calculation of ECL.

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

9. 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 April 30, 2022	Level 1	Level 2	Level 3	Total
Derivative assets	\$ -	\$ 9,938	\$ -	\$ 9,938
Investment shares in entities ⁽¹⁾	-	-	68	68
Shares in Concentra Trust ⁽¹⁾	-	-	227	227
Financial assets held at fair value	\$ -	\$ 9,938	\$ 295	\$ 10,233
Member shares - Series E	-	(443)	-	(443)
Derivative liabilities	-	(39,542)	-	(39,542)
Financial liabilities held at fair value	\$ -	\$ (39,985)	\$ -	\$ (39,985)

Fair value measurements using Level 3 inputs

Balance at October 31, 2021	\$	278
Purchases		17
Balance at April 30, 2022	\$	295

As at October 31, 2021	Level 1	Level 2	Level 3	Total
Derivative assets	\$ -	\$ 9,507	\$ -	\$ 9,507
Investment shares in entities ⁽¹⁾	-	-	51	51
Shares in Concentra Trust ⁽¹⁾	-	-	227	227
Financial assets held at fair value	\$ -	\$ 9,507	\$ 278	\$ 9,785
Member shares - Series E	-	(430)	-	(430)
Derivative liabilities	-	(25,567)	-	(25,567)
Financial liabilities held at fair value	\$ -	\$ (25,997)	\$ -	\$ (25,997)

Fair value measurements using Level 3 inputs

Balance at October 31, 2020	\$	270
Fair value through profit and (loss)		12
Purchases		13
Sales		(17)
Balance at October 31, 2021	\$	278

⁽¹⁾ Investment shares in entities and Shares in Concentra Trust are included in investments on the interim condensed consolidated statement of financial position

10. COMPARATIVE FIGURES

Certain comparative figures in the interim condensed consolidated statements and note disclosures have been reclassified to conform to the current year's presentation.

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

11. EVENTS AFTER THE REPORTING PERIOD

As part of a significant, organizational transformation at Servus, several structural and personnel changes took effect on May 3, 2022. These changes impacted employees across different service lines and branches, resulting in costs that Servus will recognize in the third quarter of this fiscal year. Based on the information available to Servus at the date these interim condensed consolidated financial statements were approved, Servus' obligations relating to the structural and personnel changes of May 3, 2022, are estimated to be about \$9,500,000.