

**SERVUS CREDIT UNION LTD.**

**Interim Condensed Consolidated Financial Statements**

**For the six months ended**

**April 30, 2019**

**(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	April 30 2019	October 31 2018
<b>Assets</b>			
Cash and cash equivalents		\$ 80,458	\$ 123,612
Investments		1,370,916	1,268,128
Members' loans	4	14,482,458	14,294,509
Income taxes receivable		6,495	8,345
Assets held for sale		10,444	8,086
Other assets		29,927	19,166
Property and equipment		139,668	142,936
Investment property		4,741	5,006
Derivative financial assets	7	9,098	5,998
Investment in associate		189,653	184,587
Intangible assets		63,841	66,273
Deferred income tax assets		-	607
<b>Total assets</b>		<b>16,387,699</b>	<b>16,127,253</b>
<b>Liabilities</b>			
Borrowings		286,212	250,000
Securitization liabilities		1,363,104	1,329,762
Members' deposits		12,983,187	12,826,156
Trade payables and other liabilities		172,026	178,301
Income taxes payable		68	-
Allowance for off balance sheet credit instruments	4,5	6,549	-
Derivative financial liabilities	7	10,724	12,372
Investment shares		419	427
Defined benefit plans		7,393	7,356
Deferred income tax liabilities		13,072	11,404
<b>Total liabilities</b>		<b>14,842,754</b>	<b>14,615,778</b>
<b>Equity</b>			
Share capital		655,640	670,275
Retained earnings		877,295	833,009
Accumulated other comprehensive income		11,009	7,217
<b>Total equity attributable to members of the Credit Union</b>		<b>1,543,944</b>	<b>1,510,501</b>
Non-controlling interest		1,001	974
<b>Total equity</b>		<b>1,544,945</b>	<b>1,511,475</b>
<b>Total liabilities and equity</b>		<b>\$ 16,387,699</b>	<b>\$ 16,127,253</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**  
**(Canadian \$ thousands)**  
**(unaudited)**

Notes	Three months ended April 30 2019	Three months ended April 30 2018	Six months ended April 30 2019	Six months ended April 30 2018
<b>Interest income</b>				
Members' loans	\$ 143,663	\$ 132,230	\$ 291,317	\$ 257,109
Investments	7,077	5,120	16,507	6,495
<b>Total interest income</b>	<b>150,740</b>	<b>137,350</b>	<b>307,824</b>	<b>263,604</b>
<b>Interest expense</b>				
Members' deposits	44,631	31,428	89,679	61,576
Other interest expense	8,843	7,879	17,768	13,311
<b>Total interest expense</b>	<b>53,474</b>	<b>39,307</b>	<b>107,447</b>	<b>74,887</b>
<b>Net interest income</b>				
Other income	97,266	98,043	200,377	188,717
Share of profits from associate	28,552	30,276	58,260	52,462
	3,417	3,667	4,239	4,816
<b>Net interest income and other income</b>	<b>129,235</b>	<b>131,986</b>	<b>262,876</b>	<b>245,995</b>
Provision for credit losses	5	840	8,766	5,381
<b>Net interest income after provision for credit losses</b>	<b>128,395</b>	<b>123,220</b>	<b>257,495</b>	<b>235,544</b>
<b>Operating expenses</b>				
Personnel	52,459	52,836	101,321	99,224
General	20,772	18,470	38,656	32,385
Occupancy	5,389	4,990	10,651	10,163
Member security	3,545	3,409	7,120	6,885
Depreciation	3,043	3,197	6,154	6,547
Organization	851	531	2,214	1,914
Impairment of assets	194	234	246	376
Amortization	2,576	2,455	5,142	4,150
<b>Total operating expenses</b>	<b>88,829</b>	<b>86,122</b>	<b>171,504</b>	<b>161,644</b>
<b>Income before patronage allocation to members and income taxes</b>				
	39,566	37,098	85,991	73,900
Patronage allocation to members	8,455	8,008	16,838	15,914
<b>Income before income taxes</b>	<b>31,111</b>	<b>29,090</b>	<b>69,153</b>	<b>57,986</b>
Income taxes	8,421	7,899	18,706	15,657
<b>Net income</b>	<b>\$ 22,690</b>	<b>\$ 21,191</b>	<b>\$ 50,447</b>	<b>\$ 42,329</b>

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)**

Notes	Three months ended April 30 2019	Three months ended April 30 2018	Six months ended April 30 2019	Six months ended April 30 2018
<b>Net income</b>	<b>\$ 22,690</b>	<b>\$ 21,191</b>	<b>\$ 50,447</b>	<b>\$ 42,329</b>
<b>Other comprehensive income for the year, net of tax:</b>				
<b>Items that may be reclassified subsequently to profit or loss:</b>				
Unrealized gain and reclassification adjustments on fair value through other comprehensive income securities <sup>(1)</sup>	-	-	1,756	-
Reclassification of net gains to net income <sup>(2)</sup>	-	-	(114)	-
<i>Share of other comprehensive income (loss) from associate</i>				
Actuarial gain (loss) on defined benefit pension plans <sup>(3)</sup>	-	-	92	(108)
<b>Items that will not be reclassified to profit or loss:</b>				
<i>Share of other comprehensive income from associate</i>				
Unrealized gain and reclassification adjustments on available for sale securities <sup>(4)</sup>	830	117	2,058	7,562
<b>Total other comprehensive income</b>	<b>\$ 830</b>	<b>\$ 117</b>	<b>\$ 3,792</b>	<b>\$ 7,454</b>
<b>Total comprehensive income</b>	<b>\$ 23,520</b>	<b>\$ 21,308</b>	<b>\$ 54,239</b>	<b>\$ 49,783</b>
<b>Total comprehensive income</b>				
Comprehensive income attributable to members	23,512	21,316	54,212	49,811
Comprehensive income (loss) attributable to non-controlling interest	8	(8)	27	(28)
<b>Total comprehensive income</b>	<b>\$ 23,520</b>	<b>\$ 21,308</b>	<b>\$ 54,239</b>	<b>\$ 49,783</b>

<sup>(1)</sup> Net of income tax expense for the three months ended April 30th of \$0, for the six months ended April 30th of \$649.

<sup>(2)</sup> Net of income tax expense for the three months ended April 30th of \$0, for the six months ended April 30th of \$42.

<sup>(3)</sup> Net of income tax expense (recovery) for the three months ended April 30th of \$0, for the six months ended April 30th of \$34, 2018 - \$(40).

<sup>(4)</sup> Net of income tax expense for the three months ended April 30th of \$307, 2018 - \$42, for the six months ended April 30th \$761, 2018 - \$2,796.

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**SERVUS CREDIT UNION LTD.**  
**Interim Condensed Consolidated Statement of Changes in Equity**  
**(Canadian \$ thousands)**  
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	Notes	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		13,504	-	-	-	-	13,504
Redemption of share capital		(23,839)	(2,615)	-	-	-	(26,454)
Dividends on share capital		-	-	-	-	-	-
Net income (loss)		-	-	42,357	-	(28)	42,329
Share of other comprehensive loss from associate		-	-	-	7,454	-	7,454
Balance at April 30, 2018		\$ 531,137	\$ 115,512	\$ 805,993	\$ 7,310	\$ 994	\$ 1,460,946

	Notes	Common Shares	Investment Shares	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Non-controlling Interest	Total Equity
<b>Balance at October 31, 2018 as previously reported</b>		\$ 550,767	\$ 119,508	\$ 833,009	\$ 7,217	\$ 974	\$ 1,511,475
Impact of adoption of IFRS 9	3	-	-	(6,134)	-	-	(6,134)
<b>Balance at November 1, 2018</b>		550,767	119,508	826,875	7,217	974	1,505,341
Changes in equity							
Issues of share capital		13,757	-	-	-	-	13,757
Redemption of share capital		(25,359)	(3,033)	-	-	-	(28,392)
Net income		-	-	50,420	-	27	50,447
Fair value adjustment for investments		-	-	-	1,756	-	1,756
Transfer from AOCI to P&L on MBS bond sale		-	-	-	(114)	-	(114)
Share of other comprehensive income from associate		-	-	-	2,150	-	2,150
<b>Balance at April 30, 2019</b>		\$ 539,165	\$ 116,475	\$ 877,295	\$ 11,009	\$ 1,001	\$ 1,544,945

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

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

	Notes	Six months ended April 30 2019	Six months ended April 30 2018
<b>Cash flows from (used in) operating activities</b>			
<b>Net income</b>		<b>\$ 50,447</b>	<b>\$ 42,329</b>
<b>Adjustments for non-cash items and others</b>			
Net interest income		(200,377)	(188,717)
Provision for credit losses		5,381	10,451
Share of profits from investment in associate		(4,239)	(4,816)
Depreciation and amortization		11,296	10,697
Impairment of assets		246	376
Gain from amalgamations		-	(1,106)
Gain on assets held for sale		(84)	(127)
Gain loss on disposal of property and equipment		(76)	(310)
Income taxes		18,706	15,657
<b>Adjustments for net changes in operating assets and liabilities</b>			
Change in members' loans		(193,909)	(283,504)
Change in members' deposits		147,731	(44,374)
Change in assets held for sale		(11,463)	(7,778)
Net change in other assets, provisions, and trade payables and other liabilities		(13,039)	(8,439)
Income taxes received and (paid), net		(12,244)	(10,724)
Interest received		306,834	261,029
Interest paid		(98,147)	(76,128)
<b>Net cash used in operating activities</b>		<b>7,063</b>	<b>(285,484)</b>
<b>Cash flows from (used in) investing activities</b>			
Additions to intangible assets		(2,775)	(29,639)
Additions to property and equipment, and investment property		(2,904)	(2,801)
Proceeds on disposal of property and equipment, and investment property		359	1,075
Proceeds on disposal of assets held for sale		9,008	9,286
Purchase of Alberta Central shares		(3,040)	(725)
Distributions from Alberta Central		5,160	10,455
Change in derivatives		(4,748)	25,097
Investments		(101,432)	(209,967)
<b>Net cash used in investing activities</b>		<b>(100,372)</b>	<b>(197,219)</b>
<b>Cash flows from (used in) financing activities</b>			
Term loans and lines of credit		36,212	150,000
Advances of securitization liabilities		201,211	516,337
Repayment of securitization liabilities		(172,539)	(170,158)
Repayment of obligation under finance leases		(94)	-
Shares issued		13,757	13,504
Shares redeemed		(28,392)	(26,454)
<b>Net cash from financing activities</b>		<b>50,155</b>	<b>483,229</b>
<b>(Decrease) Increase in cash and cash equivalents</b>		<b>(43,154)</b>	<b>526</b>
Cash and cash equivalents, beginning of period		123,612	93,425
<b>Cash and cash equivalents, end of period</b>		<b>\$ 80,458</b>	<b>\$ 93,951</b>

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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") 2018 audited annual consolidated financial statements.

These interim condensed consolidated financial statements were approved by the Audit and Finance Committee on June 26, 2019.

**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' 2018 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 2018 annual financial statements, except for changes resulting from current accounting changes as disclosed in Note 3.

**Change in Accounting Estimates**

During the quarter, Servus changed the process for estimating the Expected Credit Losses based on their experience in the previous quarter. Previously, Stage 3 loans included all loans that were over 90 days, even if the credit risk rating did not change. Now, all large Commercial loans which are over 90 days and greater than \$150 are assessed as credit impaired (Stage 3) or not credit impaired (Stage 2) based on information gathered in the collection efforts. The information used can be qualitative or quantitative. If the loan is considered not impaired, the information used to make that decision is used as support to rebut the 90 day presumption and these loans would be classified as Stage 2. This change creates a fairer estimate in the staging process. This change in estimate resulted in a \$2,800 reduction in the Expected Credit Loss Allowance.

**2. ACCOUNTING POLICIES**

In addition to the accounting policies disclosed in the Servus' 2018 annual consolidated financial statements, the following policies are required to be applied for the period ended April 30, 2019:

***Classification and Measurement of Financial Instruments***

All financial assets are measured either at amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL) based on their contractual cash flow characteristics and the business model for managing the financial assets. All financial instruments are initially measured at fair value. They are recognized at the trade date, when the Credit Union becomes a party to the contractual provisions of the instrument, and initially measured at fair value.

Transaction costs on financial instruments classified as fair value through profit or loss (FVTPL) are expensed as incurred. For all other classifications of financial instruments, initial transaction costs are capitalized.

In order to meet the cash flow characteristics criterion for purposes of classifying a financial asset at amortized cost, the cash flows for the asset must be solely payment of principal and interest (SPPI) on the principal amount outstanding. Principle is defined as the fair value of the asset at initial recognition. Interest payments can include consideration for the time value of money as well as credit and liquidity risks and a certain profit margin.

The Credit Unions' business models are determined in a manner that reflects how group of financial assets are managed to achieve a particular business objective. The business models refer to how the Credit Union manages its financial assets in order to generate cash flows, that is, they reflect whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Determining business models requires the use of judgment and is based on all relevant evidence available at the date of the assessment.



**SERVUS CREDIT UNION LTD.**  
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**2. ACCOUNTING POLICIES (CONTINUED)**

The Credit Unions' business models are defined as follows:

- Held to collect contractual cash flows;
- Held to collect contractual cash flows and sell;
- Other business models: The objective is not consistent with any of the above mentioned business models and represent business objectives where assets are managed on a fair value basis.

Financial assets are not reclassified following their initial recognition, unless the business model for managing those financial assets changes.

The below table outlines how the Credit Union has classified its financial assets and liabilities.

Classification and Measurement	Amortized Cost	Fair Value Through Other Comprehensive Income (FVOCI)	Fair Value Through Profit or Loss (FVTPL)
Cash and cash equivalents	▼		
Accounts receivable	▼		
Investments - mortgage backed security bonds		▼	
Investments - Alberta Central term deposits	▼		
Investment shares in entities			▼
Shares in Concentra Trust			▼
Members' loans	▼		
Securitized mortgage pools	▼		
Derivatives - interest rate swaps			▼
Derivatives - equity linked options			▼
Members' deposits	▼		
Trade payables and other liabilities	▼		
Borrowings and securitization liabilities	▼		
Investment shares			▼

*Financial Assets Measured at Amortized Cost*

Financial assets are measured at amortized cost if they are held within the held to collect contractual cash flows business model and their contractual cash flows pass the SPPI test. The assets are initially recognized at fair value which is the cash consideration to originate or purchase the asset, including any transaction costs and is subsequently measured at amortized cost using the effective interest rate method. Financial assets measured at amortized cost are reported in the interim condensed consolidated statement of financial position as cash and cash equivalents, accounts receivable, Alberta Central term deposits and members' loans. Interest is included in the interim condensed consolidated statement of income as part of net interest income.

For loans, expected credit losses are reported as a deduction in the loan's carrying value and are recognized in the interim condensed consolidated statement of income as a provision for credit losses.

**SERVUS CREDIT UNION LTD.**  
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**2. ACCOUNTING POLICIES (CONTINUED)**

*Financial Assets at Fair Value through Other Comprehensive Income*

Financial assets with the held to collect contractual cash flows and sell business model where contractual cash flows meet the SPPI test are measured at FVOCI. Mortgage-backed security (MBS) bonds that were sold in the period were included in this category. Financial assets at FVOCI are subsequently measured at fair value with gains and losses arising due to changes in fair value recognized in other comprehensive income (OCI). Interest income is included in the interim condensed consolidated statement of comprehensive income in net interest income.

*Financial Assets and Liabilities at Fair Value through Profit and Loss*

The financial assets category comprises two sub-categories: financial assets required to be measured at fair value as a result of the business model for managing those assets and financial assets designated by the Credit Union as FVTPL upon initial recognition.

The Credit Union may designate any financial asset or liability as FVTPL where the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

In the ordinary course of business, the Credit Union enters into various derivative contracts, including interest rate forwards, swaps, and options. The Credit Union enters into such contracts principally to manage its exposure to interest rate fluctuations as part of its asset/liability management program. The Credit Union does not apply hedge accounting to its derivative portfolio.

Financial instruments classified as held at FVTPL consist of the investment shares in entities, shares in Concentra Trust, and the liability portion of investment shares and derivative contracts. Gains and losses arising from changes in fair value are included in the interim condensed consolidated statement of income as part of net interest income. Interest income and expense on financial assets designated as FVTPL are included in net interest income.

Equity instruments are measured at FVTPL. Fair value changes are recorded as part of other income in the interim condensed consolidated statement of income.

*Financial Liabilities Measured at Amortized Cost*

Financial liabilities not classified as FVTPL fall into this category and include members' deposits, borrowings, securitization liabilities and trade payables and other liabilities. These are measured at fair value on initial recognition and subsequently at amortized cost using the effective interest method.

**Financial Instruments — Derecognition**

Financial assets are derecognized when the rights to receive cash flows from the asset have expired or substantially all the risks and rewards of the assets have been transferred. If the Credit Union has neither transferred nor retained substantially all the risks and rewards of the financial asset, it will assess whether it has retained control over the asset. If the Credit Union determines that control has not been retained, it will derecognize the transferred asset.

Financial liabilities are derecognized when the obligation has been discharged, cancelled or expired.

***Impairment of Financial Assets***

The Credit Union records an allowance for loan losses for all financial assets that are measured at amortized cost or at FVOCI, which also includes loan commitments and financial guarantee contracts. Equity investments are not subject to impairment. Impairment losses are measured based on the estimated amount and timing of future cash flows, and collateral values.

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## **2. ACCOUNTING POLICIES (CONTINUED)**

For loans carried at amortized cost, impairment losses are recognized at each reporting date as an expected credit loss on the interim condensed consolidated statement of financial position, and as a provision for loan loss on the interim condensed consolidated statement of income. Losses are based on a three-stage impairment model outlined below.

For financial assets measured at FVOCI, the calculated Expected Credit Loss (ECL) does not reduce the carrying amount in the interim condensed consolidated statement of financial position, which remains at fair value. Instead, the allowance is recognized in OCI as an accumulated impairment amount with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is reclassified to profit and loss when the asset is derecognized.

### *Measurement of Expected Credit Losses*

At each reporting date, the Credit Union recognizes a loss allowance based on an impairment model that comprises three different stages:

- Stage 1: For financial instruments that have not had a significant increase in credit risk since initial recognition and are not considered credit-impaired financial assets at initial recognition, a loss allowance amounting to 12-month expected credit losses is recognized.
- Stage 2: For financial instruments that have had a significant increase in credit risk since initial recognition but are not considered credit-impaired financial assets, a loss allowance amounting to the lifetime expected credit losses is recognized.
- Stage 3: For financial instruments considered credit impaired, a loss allowance amounting to the lifetime expected credit losses continues to be recognized.

Stage 1 and 2 are considered to be performing loans and Stage 3 consists of impaired loans. Financial instruments may, over their life, move from one impairment model stage to another based on the improvement or deterioration in their credit risk and the level of expected credit losses. Instruments are categorized based on the change in credit risk from origination (initial recognition) to current reporting date.

### *Forward-Looking Information*

Forward looking information (FLI) is incorporated into the measurement of ECL. The following factors have been determined to be most relevant to the Credit Union:

- Unemployment rate
- House price index
- Interest rate

These factors are customized to each major loan grouping, taking into account any lag factors and are updated quarterly. The model then uses a weighted average of three scenarios (best, base, and worst) of the forecast economic factors. These scenarios are intended to address the variety of possible outcomes in the FLI. The factors are forecast out 19 quarters. The weighting of these scenarios is assessed quarterly by a committee comprised of accounting, credit, risk, treasury and banking operations.

As the inputs used may not capture all factors, particular region specific, at the date of the financial statements, qualitative adjustments may be applied when these differences are considered significantly material.

### *Expected Life*

For loans in Stages 2 and 3, allowances are based on the ECL over the loan's expected remaining lifetime. For most loans, the life is based on the remaining contractual term. Exceptions can apply if the loan has the following characteristics:

- includes both a loan and an undrawn commitment component;
- the contractual ability by the lender to demand repayment and cancel the undrawn commitment; and
- if there is no stated contractual term (i.e. credit cards, home equity lines of credit (HELOC's) and revolving lines of credit)

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## **2. ACCOUNTING POLICIES (CONTINUED)**

In these cases, ECL's are estimated using a conditional survival curve to determine the expected remaining lifetime.

### *Significant Increase in Credit Risk*

Movement in the stages relies on judgment to assess whether a loan's credit risk has significantly increased relative to the date the loan was initially recognized. For this assessment, an increase in credit risk is considered at the instrument level.

Assessing for significant increases in credit risk is performed quarterly based on the following factors. Should any of these factors indicate a significant increase in credit risk, the loan is moved to the appropriate stage:

- Credit risk ratings: commercial and agriculture loans use an internal risk rating, personal and residential mortgages use beacon scores, or
- Loans that are 30 days past due are typically considered to have experienced a significant increase in credit risk (Stage 2), or
- Loans past 90 days are typically considered to be in default (Stage 3), or
- Other factors known by the Credit Union are also used as appropriate to determine staging if different from above. This can include, but not limited to, information gathered in the collections process.

If a member's credit risk increases significantly from initial recognition, the loan associated with that member will increase to the next stage level. If these conditions reverse and the member's credit risk recovers back to its initial rating or better, the loan will move back a stage.

Financial assets with low credit risk are considered to have a low risk of default, as the borrower is still able to fulfil their contractual obligations, including in stress scenarios. These financial assets have been assessed collectively and include Alberta Central Term Deposits, accounts receivable, MBS bonds, letters of credit and letters of guarantee.

### *Default*

The Credit Union has defined default as any credit instrument that meets at least one of the following criteria:

- 90 or more days past due, unless other factors rebut this presumption.
- Less than 90 days past due but the Credit Union has information indicating that the member is unlikely to pay their credit obligations in full. Examples include member bankruptcy and breach in covenants.

### *Write-Offs*

The Credit Union seeks to work with the Members to bring their accounts to a current status before taking possession of collateral. Amounts written off are charged to the allowance against the carrying value of an impaired loan when there is no realistic prospect of future recovery and all collateral has been realized. Credit cards are written off after 180 days past due. These balances could however still be subject to enforcement actions. In subsequent periods, any recoveries of amounts previously written off are credited to the provision for credit losses in the interim condensed consolidated statement of income.

### *Modifications and Recognition*

A modification occurs when a loan's original terms, payment schedule, interest rate and limit are renegotiated or modified, which results in a change to the loan's contractual cash flows. A modification is calculated by taking the net present value of the new contractual cash flows, discounted at the original effective interest rate (EIR) less the current carrying value, with the difference recognized as a gain or loss. The asset will continue to be subject to the same assessments for significant increase in credit risk and stage migration prior to being modified.

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**3. CURRENT ACCOUNTING CHANGES**

**IFRS 9 Financial Instruments**

On November 1, 2018, the Credit Union adopted IFRS 9 Financial Instruments (IFRS 9), which replaced the guidance in IAS 39 Financial Instruments: Recognition and Measurement (IAS 39). Adopting IFRS 9 has resulted in changes to accounting policies for the recognition, classification and measurement of financial assets and liabilities, as well as the impairment of financial assets. The Credit Union has adopted IFRS 9 effective November 1, 2018 ("date of transition").

IFRS 9 does not require restatement of comparative period financial statements except in limited circumstances related to aspects of hedge accounting. Entities are permitted to restate comparatives as long as hindsight is not applied, however the Credit Union made the decision not to restate comparative period financial information and has recognized any measurement differences between the previous carrying amounts and the new carrying amounts on November 1, 2018, through an adjustment to opening retained earnings. Refer to the Credit Union's 2018 Financial Statements and the accompanying Notes for accounting policies under IAS 39 applied during those periods. Amendments were also made to IFRS 7 Financial Instruments: Disclosures (IFRS 7) introducing expanded qualitative and quantitative disclosures related to IFRS 9, which the Credit Union has also adopted.

The impact of IFRS 9 on classification of financial assets and financial liabilities is set out below.

	IAS 39 Measurement Category	IFRS 9 Measurement Category
Cash and cash equivalents	Amortized Cost	Amortized Cost
Accounts receivable	Amortized Cost	Amortized Cost
Investments		
Investments - MBS Bonds	FVOCI	FVOCI
Investments - Alberta Central term deposits	Amortized Cost	Amortized Cost
Investment shares in entities & Concentra Trust	Cost	FVTPL
Members' loans	Amortized Cost	Amortized Cost
Securitized mortgage pools	Amortized Cost	Amortized Cost
Derivative financial assets	FVTPL	FVTPL
Members' deposits	Amortized Cost	Amortized Cost
Trade payables and other liabilities	Amortized Cost	Amortized Cost
Borrowings and securitization liabilities	Amortized Cost	Amortized Cost
Investment shares	FVTPL	FVTPL

The Credit Union holds investments in companies (some are part of the credit union system) which are not traded on an active market. Since the fair value of these investments cannot be reliably measured, they were previously classified as available for sale and measured at cost less any accumulated impairment losses. Under IFRS 9, this treatment is not available and equity investments need to be measured at FVTPL.

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**3. CURRENT ACCOUNTING CHANGES (CONTINUED)**

The table below reflects the impact of IFRS 9 on implementation at November 1, 2018 on the interim condensed consolidated statement of financial position. Reclassifications represent movements of the carrying amount of financial assets and liabilities which have changed their classification. Remeasurement represents changes in the carrying amount of the financial assets and liabilities due to changes in their measurement. During the quarter, Servus identified and corrected an error in the transition adjustment relating to remeasurement. This correction resulted in an increase/(decrease) in the remeasurement transition adjustment to the following balances; member loans - \$1,614, allowance for off balance sheet credit instrument liability – (\$164), deferred tax liability – (\$2,269) and retained earnings - \$4,047.

	As at October 31, 2018 IAS 39 Carrying Amount	Reclassification	Remeasurement	As at November 1, 2018 IFRS 9 Carrying Amount
<b>Assets</b>				
Cash and cash equivalents	\$ 136,832	-	-	\$ 136,832
Investments				
Amortized cost	1,093,395	-	-	1,093,395
Available for sale (cost)	301	(301)	-	-
FVOCI	174,432	-	-	174,432
FVTPL	-	301	-	301
Members' loans	14,294,509	-	(1,625)	14,292,884
Income taxes receivable	8,345	-	-	8,345
Assets held for sale	8,086	-	-	8,086
Other assets	19,166	-	-	19,166
Property and equipment	142,936	-	-	142,936
Investment property	5,006	-	-	5,006
Derivative financial assets	5,998	-	-	5,998
Investment in associate	184,587	-	-	184,587
Intangible assets	66,273	-	-	66,273
Deferred income tax assets	607	-	-	607
<b>Total assets</b>	<b>16,140,473</b>	<b>-</b>	<b>(1,625)</b>	<b>16,138,848</b>
<b>Liabilities</b>				
Borrowings	250,000	-	-	250,000
Securitization liabilities	1,329,762	-	-	1,329,762
Members' deposits	12,839,376	-	-	12,839,376
Trade payables and other liabilities	178,301	-	-	178,301
Allowance for off balance sheet credit instruments	-	-	6,778	6,778
Derivative financial liabilities	12,372	-	-	12,372
Investment shares	427	-	-	427
Defined benefit plans	7,356	-	-	7,356
Deferred income tax liabilities	11,404	-	(2,269)	9,135
<b>Total liabilities</b>	<b>14,628,998</b>	<b>-</b>	<b>4,509</b>	<b>14,633,507</b>
<b>Equity</b>				
Share capital	670,275	-	-	670,275
Retained earnings	833,009	-	(6,134)	826,875
Accumulated other comprehensive income	7,217	-	-	7,217
<b>Total equity attributable to members of the Credit Union</b>	<b>1,510,501</b>	<b>-</b>	<b>(6,134)</b>	<b>1,504,367</b>
Non-controlling interest	974	-	-	974
<b>Total equity</b>	<b>1,511,475</b>	<b>-</b>	<b>(6,134)</b>	<b>1,505,341</b>
<b>Total liabilities and equity</b>	<b>\$ 16,140,473</b>	<b>\$ -</b>	<b>(1,625)</b>	<b>\$ 16,138,848</b>

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**3. CURRENT ACCOUNTING CHANGES (CONTINUED)**

The following table reflects the impact of IFRS 9 on implementation at November 1, 2018 on allowance for credit losses.

	As at October		As at November	
	31, 2018		1, 2018	
	IAS 39	Remeasurement	IAS 39	Remeasurement
Residential mortgages	\$ 1,648	\$ 1,817	\$ 3,465	
Commercial and agriculture	16,277	5,433	21,710	
Consumer and credit card	23,586	(5,625)	17,961	
Allowance for off balance sheet credit instruments	-	6,638	6,638	
Collectively assessed *	-	140	140	
<b>Total</b>	<b>\$ 41,511</b>	<b>\$ 8,403</b>	<b>\$ 49,914</b>	

\* The amount is included in the allowance for off balance sheet credit instruments

**IFRS 15 Revenue from Contracts with Customers**

In the current year, the Credit Union has adopted IFRS 15, Revenue from Contracts with Customers (IFRS 15), which establishes principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard provides a single, principles-based five-step model for revenue recognition to be applied to all contracts with customers.

IFRS 15 will impact the recognition of revenue related to credit cards. Revenue from interchange fees will be deferred related to loyalty points and will be recognized as points are redeemed, along with the related expense. There is no opening retained earnings impact as a result of adopting IFRS 15.

**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				
<b>As at April 30, 2019</b>							
Residential mortgages	\$ 7,597,643	\$ 708,867	\$ 17,935	\$ 8,324,445	\$ 3,534	\$ 8,320,911	
Commercial and agriculture	4,823,912	68,825	65,021	4,957,758	18,772	4,938,986	
Consumer and credit card	1,099,317	132,374	7,112	1,238,803	16,242	1,222,561	
<b>Total Member Loans</b>	<b>\$ 13,520,872</b>	<b>\$ 910,066</b>	<b>\$ 90,068</b>	<b>\$ 14,521,006</b>	<b>\$ 38,548</b>	<b>\$ 14,482,458</b>	
<b>As at April 30, 2019</b>							
Residential mortgages	\$ 1,442,280	\$ 16,107	\$ 705	\$ 1,459,092	\$ 110	\$ 1,458,982	
Commercial and agriculture	1,049,208	5,248	414	1,054,870	677	1,054,193	
Consumer and credit card	1,010,037	22,814	939	1,033,790	5,622	1,028,168	
Loan commitments and guarantees *	-	48,232	-	48,232	140	48,092	
<b>Total Off Balance Sheet Credit Instruments</b>	<b>\$ 3,501,525</b>	<b>\$ 92,401</b>	<b>\$ 2,058</b>	<b>\$ 3,595,984</b>	<b>\$ 6,549</b>	<b>\$ 3,589,435</b>	

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**4. MEMBERS' LOANS (CONTINUED)**

	Gross Amount	Specific Allowance	Collective Allowance	Net Amount	Impaired Loans
As at October 31, 2018					
Residential mortgages	\$ 8,226,490	\$ 373	\$ 1,172	\$ 8,224,945	\$ 1,602
Commercial mortgages and loans	4,411,062	9,286	4,364	4,397,412	12,986
Consumer loans	1,021,359	2,949	7,415	1,010,995	3,670
Agricultural mortgages and loans	397,125	420	159	396,546	1,066
Credit card	231,695	3,240	10,166	218,289	3,240
	14,287,731	16,268	23,276	14,248,187	22,564
Accrued interest	48,289	1,239	728	46,322	-
<b>Total</b>	<b>\$ 14,336,020</b>	<b>\$ 17,507</b>	<b>\$ 24,004</b>	<b>\$ 14,294,509</b>	<b>\$ 22,564</b>

**5. ALLOWANCE FOR CREDIT LOSSES**

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

	Residential Mortgages	Commercial and Agriculture	Consumer and Credit Card	Collectively Assessed <sup>(1)</sup>	Total
<b>As at November 1, 2018</b>	<b>\$ 3,595</b>	<b>\$ 22,526</b>	<b>\$ 23,653</b>	<b>\$ 140</b>	<b>\$49,914</b>
Recoveries of previous loan write-offs	1	100	3,196	-	3,297
Provision charged to net income	978	(2,450)	6,853	-	5,381
	4,574	20,176	33,702	140	58,592
Loans written off	(930)	(727)	(11,838)	-	(13,495)
<b>As at April 30, 2019</b>	<b>\$ 3,644</b>	<b>\$ 19,449</b>	<b>\$ 21,864</b>	<b>\$ 140</b>	<b>\$45,097</b>
<b>Presented on Interim Condensed Consolidated Statement of Financial Position as:</b>					
Netted with Member loans	3,534	18,772	16,242	-	38,548
Off balance sheet credit instruments <sup>(2)</sup>	110	677	5,622	140	6,549
<b>Total</b>	<b>\$ 3,644</b>	<b>\$ 19,449</b>	<b>\$ 21,864</b>	<b>\$ 140</b>	<b>\$45,097</b>

<sup>(1)</sup> Financial guarantees and letters of credit are collectively assessed

<sup>(2)</sup> Off balance sheet credit instruments consisting of undrawn commitments and financial guarantees



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**5. ALLOWANCE FOR CREDIT LOSSES (CONTINUED)**

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

**Allowance for loan losses - Residential Mortgages**

	Performing		Impaired		Total
	Stage 1	Stage 2	Stage 3		
<b>As at November 1, 2018</b>	\$ 1,026	\$ 1,925	\$ 644	\$	3,595
Transfers					
Stage 1 <sup>(1)</sup>	130	(128)	(2)		-
Stage 2 <sup>(1)</sup>	(656)	745	(89)		-
Stage 3 <sup>(1)</sup>	(114)	(465)	579		-
New originations <sup>(2)</sup>	102	205	-		307
Repayments <sup>(3)</sup>	(59)	(202)	506		245
Remeasurements <sup>(4)</sup>	617	(230)	39		426
Loans written off			(930)		(930)
Recoveries			1		1
<b>As at April 30, 2019</b>	\$ 1,046	\$ 1,850	\$ 748	\$	3,644
<b>Presented on Interim Condensed Consolidated Statement of Financial Position as:</b>					
Member loans	973	1,813	748		3,534
Off balance sheet credit instruments	73	37	-		110
<b>Total</b>	\$ 1,046	\$ 1,850	\$ 748	\$	3,644

<sup>(1)</sup> Stage transfers represent movement between stages

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

<sup>(3)</sup> Repayments relate to loan fully repaid or derecognized and excluded loans written off where a credit loss was incurred

<sup>(4)</sup> Represents the change in the allowance due to changes in economic factors, risk and model parameters

**Allowance for loan losses - Commercial and Agriculture**

	Performing		Impaired		Total
	Stage 1	Stage 2	Stage 3		
<b>As at November 1, 2018</b>	\$ 2,811	\$ 565	\$ 19,150	\$	22,526
Transfers					
Stage 1 <sup>(1)</sup>	72	(68)	(4)		-
Stage 2 <sup>(1)</sup>	(211)	717	(506)		-
Stage 3 <sup>(1)</sup>	(1,659)	(2,279)	3,938		-
New originations <sup>(2)</sup>	337	15	36		388
Repayments <sup>(3)</sup>	(159)	(34)	(2,077)		(2,270)
Remeasurements <sup>(4)</sup>	1,653	1,792	(4,013)		(568)
Loans written off	-	-	(727)		(727)
Recoveries	-	-	100		100
<b>As at April 30, 2019</b>	\$ 2,844	\$ 708	\$ 15,897	\$	19,449
<b>Presented on Interim Condensed Consolidated Statement of Financial Position as:</b>					
Member loans	2,485	700	15,587		18,772
Off balance sheet credit instruments	359	8	310		677
<b>Total</b>	\$ 2,844	\$ 708	\$ 15,897	\$	19,449

<sup>(1)</sup> Stage transfers represent movement between stages

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

<sup>(3)</sup> Repayments relate to loan fully repaid or derecognized and excluded loans written off where a credit loss was incurred

<sup>(4)</sup> Represents the change in the allowance due to changes in economic factors, risk and model parameters

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**5. ALLOWANCE FOR CREDIT LOSSES (CONTINUED)**

**Allowance for loan losses - Consumer and Credit Card**

	Performing		Impaired		Total
	Stage 1	Stage 2	Stage 3		
<b>As at November 1, 2018</b>	\$ 7,315	\$ 10,704	\$ 5,634	\$	23,653
Transfers					-
Stage 1 <sup>(1)</sup>	598	(582)	(16)		-
Stage 2 <sup>(1)</sup>	(3,965)	4,398	(433)		-
Stage 3 <sup>(1)</sup>	(662)	(5,408)	6,070		-
New originations <sup>(2)</sup>	1,584	274	14		1,872
Repayments <sup>(3)</sup>	(339)	(661)	5,898		4,898
Remeasurements <sup>(4)</sup>	2,998	1,711	(4,626)		83
Loans written off	-	-	(11,838)		(11,838)
Recoveries	-	-	3,196		3,196
<b>As at April 30, 2019</b>	\$ 7,529	\$ 10,436	\$ 3,899	\$	21,864
<b>Presented on Interim Condensed Consolidated Statement of Financial Position as:</b>					
Member loans	3,929	8,539	3,774		16,242
Off balance sheet credit instruments	3,600	1,897	125		5,622
<b>Total</b>	\$ 7,529	\$ 10,436	\$ 3,899	\$	21,864

<sup>(1)</sup> Stage transfers represent movement between stages

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

<sup>(3)</sup> Repayments relate to loan fully repaid or derecognized and excluded loans written off where a credit loss was incurred

<sup>(4)</sup> Represents the change in the allowance due to changes in economic factors, risk and model parameters

The following tables present the Credit Union's allowance as at October 31, 2018 under IAS 39:

**Specific Allowance**

	Residential	Commercial	Consumer	Agricultural	Credit	Interest	Total
As at October 31, 2017	\$ 56	\$ 21,479	\$ 2,384	\$ -	\$ -	\$ 1,558	\$ 25,477
Credit card allowance	-	-	-	-	2,416	-	2,416
Recoveries of previous loan write-offs	10	169	1,635	-	1,098	-	2,912
Allowance charged to net income	1,687	1,521	6,582	442	12,344	1,787	24,363
	1,753	23,169	10,601	442	15,858	3,345	55,168
Loans written off	(1,380)	(13,883)	(7,652)	(22)	(12,618)	(2,106)	(37,661)
As at October 31, 2018	\$ 373	\$ 9,286	\$ 2,949	\$ 420	\$ 3,240	\$ 1,239	\$ 17,507

**Collective Allowance**

	Residential	Commercial	Consumer	Agricultural	Credit	Interest	Total
As at October 31, 2017	\$ 1,009	\$ 1,808	\$ 7,539	\$ 100	\$ -	\$ 561	\$ 11,017
Credit card & Safeway CU allowance	-	-	84	-	8,431	-	8,515
Allowance charged to net income	163	2,556	(208)	59	1,735	167	4,472
As at October 31, 2018	\$ 1,172	\$ 4,364	\$ 7,415	\$ 159	\$ 10,166	\$ 728	\$ 24,004

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

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

<i>As at April 30, 2019</i>	Residential Mortgages	Commercial and Agriculture	Consumer and Credit Card	Total
<b><i>Risk Categories</i></b>				
Very low risk	\$ 2,844,279	\$ 7,883	\$ 295,798	\$ 3,147,960
Low risk	3,540,141	2,505,081	465,287	6,510,509
Medium risk	1,247,159	2,346,772	231,997	3,825,928
High risk	674,931	33,001	238,609	946,541
Impaired	17,935	65,021	7,112	90,068
<b>Total Loans</b>	<b>\$ 8,324,445</b>	<b>\$ 4,957,758</b>	<b>\$ 1,238,803</b>	<b>\$ 14,521,006</b>

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

<i>As at April 30, 2019</i>	Residential Mortgages	Commercial and Agriculture	Consumer and Credit Card	Loan Commitments and Guarantees	Total
<b><i>Risk Categories</i></b>					
Very low risk	\$ 960,379	\$ 17,275	\$ 552,962	-	\$ 1,530,616
Low risk	447,419	849,732	315,574	-	1,612,725
Medium risk	42,900	187,082	69,578	48,232	347,792
High risk	7,689	367	94,737	-	102,793
Impaired	705	414	939	-	2,058
<b>Total Loan Commitments</b>	<b>\$ 1,459,092</b>	<b>\$ 1,054,870</b>	<b>\$ 1,033,790</b>	<b>\$ 48,232</b>	<b>\$ 3,595,984</b>

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

<b>Risk Assessment</b>	<b>Mortgage Beacon Score Range <sup>(1)</sup></b>	<b>Consumer &amp; Credit Card Beacon Score Range <sup>(2)</sup></b>	<b>Risk Rating Range <sup>(3)</sup></b>
Very low risk	800 +	800 +	1
Low risk	681 - 799	701 - 799	2 and 3
Medium risk	625 - 680	650 - 700	4, 5
High risk / Impaired	624 or less	649 or less	6, 7, 8, and 9

<sup>(1)</sup> Used for residential mortgages

<sup>(2)</sup> Used for consumer loans and credit cards

<sup>(3)</sup> Used for commercial and agriculture mortgages and loans.

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**6. CREDIT QUALITY OF MEMBERS' LOANS (CONTINUED)**

The following analysis includes individual loans that are impaired, or potentially impaired, based on the age of repayments outstanding in determining the specific allowance as at October 31, 2018 under IAS 39:

As at October 31, 2018	Residential	Commercial	Consumer	Agricultural	Credit Card	Total
<i>Risk Categories</i>						
1 to 5 - Satisfactory risk	\$ -	\$ 4,319,517	\$ -	\$ 392,232	\$ -	\$ 4,711,749
6 - Watch list	-	38,082	-	3,052	-	41,134
8 - Impaired risk - performing	-	31,811	-	-	-	31,811
7 and 9 - Unacceptable/impaired risk - non-performing	-	8,666	-	775	-	9,441
Loans without risk rating	8,224,888	-	1,017,689	-	228,455	9,471,032
Loans not impaired	8,224,888	4,398,076	1,017,689	396,059	228,455	14,265,167
Loans specifically impaired	1,602	12,986	3,670	1,066	3,240	22,564
Sub Total	8,226,490	4,411,062	1,021,359	397,125	231,695	14,287,731
Accrued interest	13,923	16,008	12,073	4,659	1,626	48,289
<b>Total</b>	<b>\$ 8,240,413</b>	<b>\$ 4,427,070</b>	<b>\$ 1,033,432</b>	<b>\$ 401,784</b>	<b>\$ 233,321</b>	<b>\$ 14,336,020</b>

- **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.

<i>Loans Past Due, as at April 30, 2019</i>	Up to 30 days	31 - 59 days	60 to 89 days	over 90 days	Total
<b>Stage 1</b>					
Consumer and credit card	\$ 18,558	\$ -	\$ -	\$ -	\$ 18,558
Commercial and agriculture	86,786	-	-	-	86,786
Residential mortgages	84,505	-	-	-	84,505
<b>Stage 2 <sup>(1)</sup></b>					
Consumer and credit card	11,797	9,140	5,245	102	26,284
Commercial and agriculture	2,312	14,412	6,188	11,330	34,242
Residential mortgages	59,490	17,269	18,869	8,195	103,823
<b>Stage 3</b>					
Consumer and credit card	-	-	-	6,974	6,974
Commercial and agriculture	4	362	50	41,921	42,337
Residential mortgages	-	-	-	17,749	17,749
<b>Total</b>	<b>\$ 263,452</b>	<b>\$ 41,183</b>	<b>\$ 30,352</b>	<b>\$ 86,271</b>	<b>\$ 421,258</b>

<sup>(1)</sup> Due to the change in accounting estimate discussed in Note 1, there can be loans over 90 days that remain in Stage 2.

<i>Loans past due, as at October 31, 2018</i>	Residential	Commercial	Consumer	Agricultural	Credit Card	Total
Past due up to 29 days	\$ 114,772	\$ 17,816	\$ 14,846	\$ 2,967	\$ 15,400	\$ 165,801
Past due 30 - 59 days	41,878	20,357	6,125	4,404	6,090	78,854
Past due 60 - 89 days	19,135	4,575	2,953	960	2,899	30,522
Past due over 90 days	30,369	52,355	3,770	4,833	5,402	96,729
<b>Total</b>	<b>\$ 206,154</b>	<b>\$ 95,103</b>	<b>\$ 27,694</b>	<b>\$ 13,164</b>	<b>\$ 29,791</b>	<b>\$ 371,906</b>

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**6. CREDIT QUALITY OF MEMBERS' LOANS (CONTINUED)**

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.

	<b>As at April 30 2019</b>	<b>As at October 31 2018</b>
<b>Loans by security</b>		
Insured loans and mortgages	\$ 2,892,339	\$ 2,801,700
Secured by mortgage	9,943,535	9,416,496
Secured by other	1,144,337	1,018,589
Unsecured	540,795	1,099,235
<b>Total</b>	<b>\$ 14,521,006</b>	<b>\$ 14,336,020</b>

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**(unaudited)**

**7. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES**

<b>As at April 30, 2019</b>	<b>Equity-linked Options</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	\$ -	\$ 14,643	\$ 14,643
Gross amounts of financial liabilities before statement of financial position offsetting	-	(13,506)	(13,506)
Net amount of financial assets presented on the statement of financial position	-	1,137	1,137
Amounts not subject to enforceable netting arrangements	7,961	-	7,961
<b>Derivative Financial Asset amounts not subject to enforceable netting arrangements</b>	<b>\$ 7,961</b>	<b>\$ 1,137</b>	<b>\$ 9,098</b>
<b><i>Derivative Financial Liabilities</i></b>			
Gross amounts of financial assets before statement of financial position offsetting	\$ -	\$ (3,348)	\$ (3,348)
Gross amounts of financial liabilities before statement of financial position offsetting	-	6,220	6,220
Net amount of financial liabilities presented on the statement of financial position	-	2,872	2,872
Amounts not subject to enforceable netting arrangements	7,852	-	7,852
<b>Total</b>	<b>\$ 7,852</b>	<b>\$ 2,872</b>	<b>\$ 10,724</b>

<b>As at October 31, 2018</b>	<b>Equity-linked Options</b>	<b>Interest Rate Swaps</b>	<b>Total</b>
Derivative Financial Asset amounts not subject to enforceable netting arrangements	\$ 5,998	\$ -	\$ 5,998
<b><i>Derivative Financial Liabilities</i></b>			
Gross amounts of financial assets before statement of financial position offsetting	\$ -	\$ (10,533)	\$ (10,533)
Gross amounts of financial liabilities before statement of financial position offsetting	-	16,963	16,963
Net amount of financial liabilities presented on the statement of financial position	-	6,430	6,430
Amounts not subject to enforceable netting arrangements	5,942	-	5,942
<b>Total</b>	<b>\$ 5,942</b>	<b>\$ 6,430</b>	<b>\$ 12,372</b>

**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 April 30 2019	As at October 31 2018
Interest rate swaps					
receive fixed, pay floating	\$ -	\$ 800,000	\$ 200,000	\$ 1,000,000	\$ 1,000,000
Equity-linked options	1,500	27,880	48,525	77,905	87,875
<b>Total</b>	<b>\$ 1,500</b>	<b>\$ 827,880</b>	<b>\$ 248,525</b>	<b>\$ 1,077,905</b>	<b>\$ 1,087,875</b>

**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 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.

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**8. 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 April 30, 2019				
	Note	Carrying Value	Fair Value	Fair Value Difference
<b>Financial Instrument Assets</b>				
Cash and cash equivalents	a	\$ 80,458	\$ 80,458	\$ -
Interest bearing deposits with financial institutions	c	1,370,649	1,370,702	53
Assets at amortized cost	e	267	267	-
Assets at fair value through profit or loss	d	9,098	9,098	-
Members' loans	b,c,g	14,482,458	14,430,411	(52,047)
Other	a	12,849	12,849	-
		15,955,779	15,903,785	(51,994)
<b>Financial Instrument Liabilities</b>				
Members' deposits	b,c	12,983,187	12,989,111	(5,924)
Liabilities at fair value through profit or loss	d	10,724	10,724	-
Borrowings	a	286,212	286,212	-
Securitization liabilities	c	1,363,104	1,351,560	11,544
Payables and other financial liabilities	a	172,032	172,032	-
Allowance for off balance sheet credit instruments	g	6,549	6,549	-
		\$ 14,821,808	\$ 14,816,188	\$ 5,620



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**8. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

As at October 31, 2018

	Note	Carrying Value	Fair Value	Fair Value Difference
<b>Financial Instrument Assets</b>				
Cash and cash equivalents	a	\$ 123,612	\$ 123,612	\$ -
Interest bearing deposits with financial institutions	c	1,092,665	1,090,417	(2,248)
Assets at amortized cost	e	1,384	1,384	-
Assets at fair value through OCI	f	174,079	174,079	-
Assets at fair value through profit or loss	d	5,998	5,998	-
Members' loans	b,c	14,294,509	14,185,296	(109,213)
Other	a	5,551	5,551	-
		<u>15,697,798</u>	<u>15,586,337</u>	<u>(111,461)</u>
<b>Financial Instrument Liabilities</b>				
Members' deposits	b,c	12,826,156	12,814,471	11,685
Liabilities at fair value through profit or loss	d	12,372	12,372	-
Borrowings	a	250,000	250,000	-
Securitization liabilities	c	1,329,762	1,296,564	33,198
Payables and other financial liabilities	a	178,552	178,552	-
		<u>\$ 14,596,842</u>	<u>\$ 14,551,959</u>	<u>\$ 44,883</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 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.

(g) Provisions and allowances use forward-looking information in the calculation of expected credit losses.

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**8. 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:

<b>As at April 30, 2019</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Derivative assets	\$ -	\$ 9,098	\$ -	\$ 9,098
<b>Financial assets held at fair value</b>	<b>\$ -</b>	<b>\$ 9,098</b>	<b>\$ -</b>	<b>\$ 9,098</b>
Member shares - Series E	-	(419)	-	(419)
Derivative liabilities	-	(10,724)	-	(10,724)
<b>Financial liabilities held at fair value</b>	<b>\$ -</b>	<b>\$ (11,143)</b>	<b>\$ -</b>	<b>\$ (11,143)</b>

As at October 31, 2018	Level 1	Level 2	Level 3	Total
Derivative assets	\$ -	\$ 5,998	\$ -	\$ 5,998
Mortgage-backed security bonds	174,079	-	-	174,079
<b>Financial assets held at fair value</b>	<b>\$ 174,079</b>	<b>\$ 5,998</b>	<b>\$ -</b>	<b>\$ 180,077</b>
Member shares - Series E	-	(427)	-	(427)
Derivative liabilities	-	(12,372)	-	(12,372)
<b>Financial liabilities held at fair value</b>	<b>\$ -</b>	<b>\$ (12,799)</b>	<b>\$ -</b>	<b>\$ (12,799)</b>

Fair value measurements using Level 3 inputs

Balance at October 31, 2017	\$ 23,080
Loss included in profit and loss	(1,612)
Purchase option exercised for embedded derivative asset	(21,468)
<b>Balance at October 31, 2018</b>	<b>\$ -</b>

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**9. EVENTS AFTER THE REPORTING PERIOD**

**Edson Credit Union Merger**

On May 1, 2019, the Credit Union amalgamated with Edson Savings and Credit Union Limited (Edson) acquiring 100% ownership under the name Servus Credit Union. Edson approached the Credit Union to amalgamate as a preferred partner as there was a strong correlation of culture, goals and objectives. This allows Edson to ensure the long term needs of its members are met and, as a province wide credit union, amalgamation with Edson will support Servus' broad branch network in an important community on a major northwestern highway.

Details of the fair value of identifiable assets and liabilities acquired and gain on amalgamation are as follows:

	<b>Book Value</b>	<b>FV Adjustments</b>	<b>Fair Value Recognized on Acquisition</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 26,577	\$ -	\$ 26,577
Receivables	3	-	3
Members' Loans	15,557	124	15,681
Prepays	26	-	26
Property and equipment	1,885	371	2,256
Investments	9,427	-	9,427
	<u>53,475</u>	<u>495</u>	<u>53,970</u>
<b>Liabilities</b>			
Members' Deposits	47,171	(161)	47,010
Trade payables and other liabilities	261	-	261
	<u>47,432</u>	<u>(161)</u>	<u>47,271</u>
<b>Total Identifiable Net Assets</b>	<b>\$ 6,043</b>	<b>\$ 656</b>	<b>\$ 6,699</b>

Consideration in the amalgamation consists of Servus issuing the existing Edson members common shares totaling \$1,586.

The amalgamation did not result in any goodwill being recognized. A gain on amalgamation of \$5.1 million was recognized.

A transaction of \$322 was also recorded to purchase the registered products of Edson members from Concentra. This was a separate agreement between the Credit Union and Concentra.

Amalgamation costs are anticipated to be in the range of \$990 - \$1,022 upon completion of the amalgamation process.

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**10. COMPARATIVE FIGURES**

Derivatives classification on the interim condensed consolidated statement of cash flows has been reclassified from operating activities to investing activities due to the nature of the underlying derivatives.

Adjustments have been made to assets and liabilities to account for reserved cash deposited with the Credit Union. Comparative figures as at October 31, 2018 have been reclassified on the Interim Condensed Consolidated Statement of Financial Position by reducing assets and liabilities by \$13,220. Comparative figures in the Interim Condensed Consolidated Statement of Cash Flows for the 6 months ended April 30, 2018 have also been adjusted as a result of the reclassification. The impact of the reclassification was a decrease in cash and cash equivalents, beginning of period of \$10,693, a decrease in the cash and cash equivalents, end of period of \$13,220, and an increase in net cash used in operating activities of \$2,527.