

SERVUS CREDIT UNION LTD.

Interim Condensed Consolidated Financial Statements

For the three months ended

January 31, 2021

(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	January 31 2021	October 31 2020
Assets			
Cash and cash equivalents		\$ 299,483	\$ 188,954
Investments	3	1,557,904	1,627,385
Members' loans	4	14,880,195	14,845,263
Assets held for sale		3,446	6,671
Other assets		33,176	30,405
Property and equipment		135,990	137,342
Leased assets		54,605	53,487
Investment property		6,078	6,120
Derivative financial assets	7	8,890	13,030
Investment in associate		196,274	197,851
Intangible assets		60,135	61,786
Total assets		17,236,176	17,168,294
Liabilities			
Borrowings		200,000	200,000
Securitization liabilities		1,053,106	1,148,433
Members' deposits		14,058,469	13,856,560
Trade payables and other liabilities		165,300	222,113
Lease liabilities		59,534	58,124
Income taxes payable		2,178	830
Allowance for off balance sheet credit instruments	4,5	8,848	7,562
Derivative financial liabilities	7	6,819	4,673
Investment shares		446	434
Defined benefit plans		8,104	8,126
Deferred income tax liabilities		7,953	8,238
Total liabilities		15,570,757	15,515,093
Equity			
Share capital		675,479	686,549
Retained earnings		978,523	954,279
Accumulated other comprehensive income		11,417	12,373
Total equity		1,665,419	1,653,201
Total liabilities and equity		\$ 17,236,176	\$ 17,168,294

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

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

	Notes	Three months ended January 31 2021	Three months ended January 31 2020
Interest income			
Members' loans		\$ 132,380	\$ 150,240
Investments		1,813	5,262
Total interest income		134,193	155,502
Interest expense			
Members' deposits		26,539	46,922
Other interest expense		8,006	7,656
Total interest expense		34,545	54,578
Net interest income		99,648	100,924
Other income		30,995	30,653
Share of (losses) profits from associate		(335)	1,296
Net interest income and other income		130,308	132,873
Provision for credit losses	5	4,316	6,699
Net interest income and other income after provision for credit losses		125,992	126,174
Operating expenses			
Personnel		50,429	50,734
General		19,937	19,603
Occupancy		3,984	4,184
Member security		2,419	2,336
Depreciation		4,440	4,455
Organization		1,455	1,455
Impairment of assets		328	390
Amortization		3,091	2,777
Total operating expenses		86,083	85,934
Income before patronage allocation to members and income taxes		39,909	40,240
Patronage allocation to members		8,418	8,340
Income before income taxes		31,491	31,900
Income taxes		7,247	8,028
Net income		\$ 24,244	\$ 23,872

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

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

	Three months ended January 31 2021	Three months ended January 31 2020
Net income	\$ 24,244	\$ 23,872
Other comprehensive income 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 on defined benefit pension plans ⁽¹⁾	(134)	(278)
Change in unrealized (loss) gain on equity securities at fair value through other comprehensive income securities ⁽²⁾	(169)	31
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⁾	(692)	(290)
Reclassification adjustments for realized gain on debt securities ⁽⁴⁾	39	16
Total other comprehensive loss	\$ (956)	\$ (521)
Total comprehensive income	\$ 23,288	\$ 23,351

⁽¹⁾ Net of income tax (recovery) for the three months ended January 31, 2021 of \$(40) (2020 - \$(83))

⁽²⁾ Net of income tax (recovery) expense for the three months ended January 31, 2021 of \$(51) (2020 - \$9)

⁽³⁾ Net of income tax (recovery) for the three months ended January 31, 2021 of \$(207) (2020 - \$(87))

⁽⁴⁾ Net of income tax expense for the three months ended January 31, 2021 of \$12 (2020 - \$5)

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

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

	Common Shares	Investment Shares	Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
Balance at October 31, 2019	560,793	121,055	909,369	11,097	1,602,314
Changes in equity					
Issues of share capital	6,343	-	-	-	6,343
Redemption of share capital	(20,076)	(2,475)	-	-	(22,551)
Net income	-	-	23,872	-	23,872
Share of other comprehensive loss from associate	-	-	-	(521)	(521)
Balance at January 31, 2020	\$ 547,060	\$ 118,580	\$ 933,241	\$ 10,576	\$ 1,609,457

	Common Shares	Investment Shares	Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
Balance at October 31, 2020	\$ 566,375	\$ 120,174	\$ 954,279	\$ 12,373	1,653,201
Changes in equity					
Issues of share capital	8,868	-	-	-	8,868
Redemption of share capital	(17,812)	(2,126)	-	-	(19,938)
Net income	-	-	24,244	-	24,244
Share of other comprehensive loss from associate	-	-	-	(956)	(956)
Balance at January 31, 2021	\$ 557,431	\$ 118,048	\$ 978,523	\$ 11,417	\$ 1,665,419

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

	Three months ended January 31 2021	Three months ended January 31 2020
Cash flows from (used in) operating activities		
Net income	\$ 24,244	\$ 23,872
Adjustments for non-cash items and others		
Net interest income ⁽¹⁾	(99,648)	(100,924)
Provision for credit losses	4,316	6,699
Share of losses (profits) from investment in associate	335	(1,296)
Depreciation	4,440	4,455
Amortization	3,091	2,777
Impairment of assets	328	390
Gain on leased assets	(1)	(22)
Loss on assets held for sale	33	108
Loss (gain) on disposal of property and equipment	326	(33)
Loss on disposal of intangible assets	-	120
Income taxes	7,247	8,028
Adjustments for net changes in operating assets and liabilities		
Change in members' loans	(62,000)	(70,737)
Change in members' deposits	208,168	(7,867)
Change in assets held for sale	(1,659)	(5,220)
Change in derivatives	6,286	(689)
Net change in other assets, provisions, and trade payables and other liabilities	(42,589)	(38,447)
Income taxes paid, net	(6,184)	(4,522)
Interest received	157,664	156,659
Interest paid	(40,430)	(55,775)
Net cash from (used in) operating activities	163,967	(82,424)
Cash flows from (used in) investing activities		
Additions to intangible assets	(1,439)	(701)
Additions to property and equipment, and investment property	(1,908)	(2,876)
Proceeds on disposal of property and equipment, and investment property	49	115
Proceeds on disposal of assets held for sale	4,523	5,989
Net proceeds from investments	70,048	73,713
Net cash from investing activities	71,273	76,240
Cash flows from (used in) financing activities		
Advances of securitization liabilities	41,637	94,622
Repayment of securitization liabilities	(153,977)	(95,585)
Repayment of principal portion of lease liabilities	(1,301)	(1,312)
Shares issued	8,868	6,343
Shares redeemed	(19,938)	(22,551)
Net cash used in financing activities	(124,711)	(18,483)
Increase (decrease) in cash and cash equivalents	110,529	(24,667)
Cash and cash equivalents, beginning of period	188,954	107,760
Cash and cash equivalents, end of period	\$ 299,483	\$ 83,093

⁽¹⁾ Net interest income includes a fair value loss (gain) on derivatives for the three months ended January 31, 2021 of \$1,196 (2020 - \$(102))

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

SERVUS CREDIT UNION LTD.
Notes to Interim Condensed Consolidated Financial Statements
(Canadian \$ thousands)
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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") 2020 audited annual consolidated financial statements.

These interim condensed consolidated financial statements were approved by the Audit and Finance Committee on March 22, 2021.

Use of Estimates, Assumptions and Critical Judgements

The preparation of the interim condensed consolidated financial statements requires management to exercise estimates, assumptions and critical judgements 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 assessed using the best available information and 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; 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 and financial assets, modification and derecognition of assets, ECL, classification and valuation of financial instruments, consolidation of structured entities and accounting for investment in associate.

The measurement of leased assets and leased liabilities require that the Credit Union make assumptions about the lease term and the interest rate used for discounting future cash flows. Given that contractual terms of lease contracts often contain renewal options, judgment is required to determine the likelihood that these options will be exercised. Where implicit interest rates are not determinable from a lease contract, judgment is used to determine an appropriate discount rate that is reflective of the rate would be incurred if the Credit Union were to purchase the assets outright.

The global pandemic declared by the World Health Organization on March 11, 2020 due to the outbreak of COVID-19 has cast uncertainty on the estimates, assumptions, and critical judgments exercised by management. The full extent of the impact of the pandemic, including government and/or regulatory responses, will have on the Canadian (specifically Albertan) economy continues to be monitored as there is still much uncertainty.

In addition to the pandemic and resulting restrictions, high unemployment, volatility in oil prices, uncertainty on the completion of pipelines have added to economic uncertainty. Alberta is expected to struggle to recover as quickly as other Provinces once a vaccine is widely distributed. The Credit Union put in place relief measures for personal and business members who are having trouble meeting their financial obligations.

The most significant impacts of the COVID-19 pandemic on the Credit Union's interim condensed consolidated statements of income and financial position as at January 31, 2021 are reduced margin due to lower interest rate and changes to the inputs and assumptions used in the measurement of ECL. The economic uncertainty surrounding business operations during the pandemic requires management to make significant judgments to estimate the allowance for ECL (refer to Note 5 for more information). Another effect is spending behaviours have changed and the Credit Union is experiencing additional liquidity as our members are saving more.

In response to the COVID-19 pandemic, the Credit Union participated in the following assistance programs of the Government of Canada:

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1. BASIS OF PRESENTATION (CONTINUED)

- **Canada Emergency Business Account (CEBA)**
 Under the CEBA program, the Credit Union has provided interest-free loans until December 31, 2022 (and at a rate of 5% thereafter), funded by the Export Development Bank of Canada (EDC), to existing eligible small business members. As the Credit Union does not retain substantially all of the risks and rewards of the financial assets, and all cash flows are passed through to the EDC, these loans are derecognized from the Credit Union's interim condensed consolidated statement of financial position as the program meets the derecognition criteria of a transfer under IFRS 9.
- **Business Credit Availability Program (BCAP)**
 There are two programs under BCAP, one administered through EDC and the other through Business Development Bank of Canada (BDC).

Under the EDC BCAP, the EDC will guarantee 80% of new operating lines of credit and term loans up to \$6.25 million for small and medium-sized businesses. Loans guaranteed by EDC will continue to be recognized on the interim condensed consolidated statement of financial position.

Under the BDC BCAP, BDC entered into a co-lending facility with the Credit Union in which BDC will purchase an 80% participation in term loans made to eligible small business and commercial members up to a maximum of \$12.5 million. The portion of loans sold to BDC is derecognized from the Credit Union's interim condensed consolidated statement of financial position as the program meets the derecognition criteria for a transfer under IFRS 9.

- **Highly Affected Sectors Credit Availability Program (HASCAP)**
 Under the HASCAP program administered through BDC, the Credit Union provides term loans up to \$1 million for small and medium-sized enterprises that have experienced a minimum 50% revenue decrease or more as a result of COVID-19. BDC will guarantee 100% of the qualifying operating credit and term loans provided by financial institutions. Loans guaranteed by BDC will continue to be recognized on the interim condensed consolidated statement of financial position.

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' 2020 annual consolidated financial statements.

3. INVESTMENTS

	As at January 31 2021	As at October 31 2020
Term deposits with Alberta Central	\$ 1,204,457	\$ 1,274,511
Term deposits with other financial institutions	350,000	350,000
Other	282	276
	1,554,739	1,624,787
Accrued interest	3,167	2,599
	1,557,906	1,627,386
ECL allowance on investments	(2)	(1)
Total	\$ 1,557,904	\$ 1,627,385

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 January 31, 2021							
Residential mortgages	\$ 7,935,508	\$ 546,275	\$ 19,079	\$ 8,500,862	\$ 8,352	\$ 8,492,510	
Commercial and agriculture	4,237,032	1,060,677	54,518	5,352,227	42,459	5,309,768	
Consumer and credit card	1,004,044	87,028	4,137	1,095,209	17,292	1,077,917	
Total members' loans	\$ 13,176,584	\$ 1,693,980	\$ 77,734	\$ 14,948,298	\$ 68,103	\$ 14,880,195	

As at January 31, 2021							
Residential mortgages	\$ 2,073,469	\$ 12,943	\$ 1,650	\$ 2,088,062	\$ 483	\$ 2,087,579	
Commercial and agriculture	1,178,284	5,414	1,060	1,184,758	1,273	1,183,485	
Consumer and credit card	1,074,679	16,948	961	1,092,588	6,996	1,085,592	
Loan commitments and guarantees *	43,944	-	-	43,944	96	43,848	
Total off balance sheet credit instruments	\$ 4,370,376	\$ 35,305	\$ 3,671	\$ 4,409,352	\$ 8,848	\$ 4,400,504	

*collectively assessed

	Performing		Impaired		Total	Allowance for Credit Losses	Total Net of Allowance
	Stage 1	Stage 2	Stage 3				
As at October 31, 2020							
Residential mortgages	\$ 7,879,028	\$ 578,863	\$ 23,075	\$ 8,480,966	\$ 6,983	\$ 8,473,983	
Commercial and agriculture	4,850,499	386,648	53,031	5,290,178	43,807	5,246,371	
Consumer and credit card	1,041,674	95,557	3,822	1,141,053	16,144	1,124,909	
Total members' loans	\$ 13,771,201	\$ 1,061,068	\$ 79,928	\$ 14,912,197	\$ 66,934	\$ 14,845,263	

As at October 31, 2020							
Residential mortgages	\$ 2,040,368	\$ 13,881	\$ 910	\$ 2,055,159	\$ 360	\$ 2,054,799	
Commercial and agriculture	1,153,117	4,925	245	1,158,287	1,394	1,156,893	
Consumer and credit card	1,045,693	17,239	673	1,063,605	5,749	1,057,856	
Loan commitments and guarantees *	46,651	-	-	46,651	59	46,592	
Total off balance sheet credit instruments	\$ 4,285,829	\$ 36,045	\$ 1,828	\$ 4,323,702	\$ 7,562	\$ 4,316,140	

*collectively assessed

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 January 31, 2021 in response to the uncertainty caused by COVID-19 discussed in Note 1.

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 (PD), forecasted future looking macroeconomic indicators (FLI) and the weightings to be used on the base, best and worst case scenarios for the FLIs.

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5. ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

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

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

Each factor is forecast in three scenarios, a base case, a best case and a worst-case scenario. These scenarios are weighted, and the weighted average is used to build the calculated estimate for ECL. 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 January 31, 2021, management concluded that weighting to be used is a 60% base, 20% best and 20% worst-case (October 31, 2020 - 60% base, 20% best and 20% worst-case).

Additional sensitivity analyses are performed in areas where additional risk is present. These are areas that are likely underrepresented by the model due to the unique circumstances that the COVID-19 pandemic has created. Specifically, the areas assessed are higher risk commercial loans, improvement of FICO scores as a result of loan deferrals, decreases in value of residential real estate in pockets of Alberta, and the impact of loan deferrals and Government assistance programs on loss given default calculations.

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 January 31, 2021, management has applied an overlay of \$13.0 million (October 31, 2020 - \$ 14.0 million) on the commercial, consumer, residential mortgages, and credit card book.

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

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

	Residential Mortgages	Commercial and Agriculture	Consumer and Credit Card	Collectively Assessed ⁽¹⁾	Total
As at October 31, 2020	\$ 7,343	\$ 45,201	\$ 21,893	\$ 59	\$ 74,496
Recoveries of previous loan write-offs	-	29	1,267	-	1,296
Provision (recovery) charged to net income	2,083	(1,405)	3,600	37	4,315
	9,426	43,825	26,760	96	80,107
Loans written off	(591)	(93)	(2,472)	-	(3,156)
As at January 31, 2021	\$ 8,835	\$ 43,732	\$ 24,288	\$ 96	\$ 76,951
Presented on Interim Condensed Consolidated Statement of Financial Position as:					
Netted with members' loans	8,352	42,459	17,292	-	68,103
Off balance sheet credit instruments ⁽²⁾	483	1,273	6,996	96	8,848
Total	\$ 8,835	\$ 43,732	\$ 24,288	\$ 96	\$ 76,951

	Residential Mortgages	Commercial and Agriculture	Consumer and Credit Card	Collectively Assessed ⁽¹⁾	Total
As at October 31, 2019	\$ 5,107	\$ 19,543	\$ 20,176	\$ 112	\$ 44,938
Recoveries of previous loan write-offs	1	280	4,978	-	5,259
Provision (recovery) charged to net income	4,466	28,419	12,458	(53)	45,290
	9,574	48,242	37,612	59	95,487
Loans written off	(2,231)	(3,041)	(15,719)	-	(20,991)
As at October 31, 2020	\$ 7,343	\$ 45,201	\$ 21,893	\$ 59	\$ 74,496
Presented on Interim Condensed Consolidated Statement of Financial Position as:					
Netted with members' loans	6,983	43,807	16,144	-	66,934
Off balance sheet credit instruments ⁽²⁾	360	1,394	5,749	59	7,562
Total	\$ 7,343	\$ 45,201	\$ 21,893	\$ 59	\$ 74,496

⁽¹⁾ Financial guarantees and letters of credit are collectively assessed

⁽²⁾ Off balance sheet credit instruments consisting of undrawn commitments and financial guarantees

The provision charged to net income is:

	Three months ended January 31 2021	Three months ended January 31 2020
Loans	\$ 4,315	\$ 6,699
Investments	1	-
Provision for credit losses	\$ 4,316	\$ 6,699

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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:

Residential Mortgages

	Performing			Impaired		Total
	Stage 1	Stage 2	Stage 3	Stage 3	Stage 3	
As at October 31, 2020	\$ 1,996	\$ 3,858	\$ 1,489	\$	\$	7,343
Transfers						
Stage 1 ⁽¹⁾	14	(13)	(1)			-
Stage 2 ⁽¹⁾	(39)	169	(130)			-
Stage 3 ⁽¹⁾	(109)	(608)	717			-
New originations ⁽²⁾	213	178	-			391
Repayments ⁽³⁾	(83)	(90)	(57)			(230)
Remeasurements ⁽⁴⁾	769	961	192			1,922
Loans written off	-	-	(591)			(591)
As at January 31, 2021	\$ 2,761	\$ 4,455	\$ 1,619	\$	\$	8,835
Presented on Interim Condensed Consolidated Statement of Financial Position as:						
Netted with members' loans	2,365	4,368	1,619			8,352
Off balance sheet credit instruments	396	87	-			483
Total	\$ 2,761	\$ 4,455	\$ 1,619	\$	\$	8,835

	Performing			Impaired		Total
	Stage 1	Stage 2	Stage 3	Stage 3	Stage 3	
As at October 31, 2019	\$ 1,547	\$ 2,679	\$ 881	\$	\$	5,107
Transfers						
Stage 1 ⁽¹⁾	479	(473)	(6)			-
Stage 2 ⁽¹⁾	(1,772)	1,936	(164)			-
Stage 3 ⁽¹⁾	(672)	(1,279)	1,951			-
New originations ⁽²⁾	478	941	-			1,419
Repayments ⁽³⁾	(228)	(330)	(347)			(905)
Remeasurements ⁽⁴⁾	2,164	384	1,404			3,952
Loans written off	-	-	(2,231)			(2,231)
Recoveries	-	-	1			1
As at October 31, 2020	\$ 1,996	\$ 3,858	\$ 1,489	\$	\$	7,343
Presented on Interim Condensed Consolidated Statement of Financial Position as:						
Netted with members' loans	1,708	3,786	1,489			6,983
Off balance sheet credit instruments	288	72	-			360
Total	\$ 1,996	\$ 3,858	\$ 1,489	\$	\$	7,343

⁽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)

Commercial and Agriculture

	Performing		Impaired		Total
	Stage 1	Stage 2	Stage 3		
As at October 31, 2020	\$ 7,645	\$ 14,471	\$ 23,085	\$	45,201
Transfers					
Stage 1 ⁽¹⁾	10	(10)	-		-
Stage 2 ⁽¹⁾	(1,849)	1,925	(76)		-
Stage 3 ⁽¹⁾	(204)	(407)	611		-
New originations ⁽²⁾	336	17	33		386
Repayments ⁽³⁾	(201)	(180)	(56)		(437)
Remeasurements ⁽⁴⁾	(25)	(1,142)	(187)		(1,354)
Loans written off	-	-	(93)		(93)
Recoveries	-	-	29		29
As at January 31, 2021	\$ 5,712	\$ 14,674	\$ 23,346	\$	43,732
Presented on Interim Condensed Consolidated Statement of Financial Position as:					
Netted with members' loans	4,537	14,664	23,258		42,459
Off balance sheet credit instruments	1,175	10	88		1,273
Total	\$ 5,712	\$ 14,674	\$ 23,346	\$	43,732

	Performing		Impaired		Total
	Stage 1	Stage 2	Stage 3		
As at October 31, 2019	\$ 3,226	\$ 1,321	\$ 14,996	\$	19,543
Transfers					
Stage 1 ⁽¹⁾	265	(148)	(117)		-
Stage 2 ⁽¹⁾	(2,305)	5,045	(2,740)		-
Stage 3 ⁽¹⁾	(12,176)	(3,190)	15,366		-
New originations ⁽²⁾	1,569	73	124		1,766
Repayments ⁽³⁾	(464)	(1,749)	(1,065)		(3,278)
Remeasurements ⁽⁴⁾	17,530	13,119	(718)		29,931
Loans written off	-	-	(3,041)		(3,041)
Recoveries	-	-	280		280
As at October 31, 2020	\$ 7,645	\$ 14,471	\$ 23,085	\$	45,201
Presented on Interim Condensed Consolidated Statement of Financial Position as:					
Netted with members' loans	6,313	14,451	23,043		43,807
Off balance sheet credit instruments	1,332	20	42		1,394
Total	\$ 7,645	\$ 14,471	\$ 23,085	\$	45,201

⁽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)

Consumer and Credit Card

	Performing			Impaired			Total
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
As at October 31, 2020	\$ 8,925	\$ 11,337	\$ 1,631	\$	\$	\$	21,893
Transfers							
Stage 1 ⁽¹⁾	54	(49)	(5)				-
Stage 2 ⁽¹⁾	(127)	239	(112)				-
Stage 3 ⁽¹⁾	(243)	(841)	1,084				-
New originations ⁽²⁾	1,007	236	-				1,243
Repayments ⁽³⁾	(213)	(184)	(80)				(477)
Remeasurements ⁽⁴⁾	1,378	1,022	434				2,834
Loans written off	-	-	(2,472)				(2,472)
Recoveries	-	-	1,267				1,267
As at January 31, 2021	\$ 10,781	\$ 11,760	\$ 1,747	\$	\$	\$	24,288
Presented on Interim Condensed Consolidated Statement of Financial Position as:							
Netted with members' loans	5,453	10,134	1,705				17,292
Off balance sheet credit instruments	5,328	1,626	42				6,996
Total	\$ 10,781	\$ 11,760	\$ 1,747	\$	\$	\$	24,288

	Performing			Impaired			Total
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
As at October 31, 2019	\$ 7,162	\$ 9,433	\$ 3,581	\$	\$	\$	20,176
Transfers							
Stage 1 ⁽¹⁾	1,371	(1,321)	(50)				-
Stage 2 ⁽¹⁾	(5,647)	6,254	(607)				-
Stage 3 ⁽¹⁾	(1,896)	(5,278)	7,174				-
New originations ⁽²⁾	2,945	987	-				3,932
Repayments ⁽³⁾	(921)	(729)	(3,265)				(4,915)
Remeasurements ⁽⁴⁾	5,911	1,991	5,539				13,441
Loans written off	-	-	(15,719)				(15,719)
Recoveries	-	-	4,978				4,978
As at October 31, 2019	\$ 8,925	\$ 11,337	\$ 1,631	\$	\$	\$	21,893
Presented on Interim Condensed Consolidated Statement of Financial Position as:							
Netted with members' loans	4,638	9,904	1,602				16,144
Off balance sheet credit instruments	4,287	1,433	29				5,749
Total	\$ 8,925	\$ 11,337	\$ 1,631	\$	\$	\$	21,893

⁽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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6. CREDIT QUALITY OF MEMBERS' LOANS

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

As at January 31, 2021	Residential Mortgages	Commercial and Agriculture	Consumer and Credit Card	Total
Risk Categories				
Very low risk	\$ 3,214,420	\$ 29,692	\$ 291,823	\$ 3,535,935
Low risk	3,659,001	2,061,065	417,978	6,138,044
Medium risk	1,106,844	3,072,845	189,886	4,369,575
High risk	501,518	134,107	191,385	827,010
Impaired	19,079	54,518	4,137	77,734
Total members' loans	\$ 8,500,862	\$ 5,352,227	\$ 1,095,209	\$ 14,948,298

As at October 31, 2020	Residential Mortgages	Commercial and Agriculture	Consumer and Credit Card	Total
Risk Categories				
Very low risk	\$ 3,206,045	\$ 25,629	\$ 312,475	\$ 3,544,149
Low risk	3,600,997	2,098,574	440,835	6,140,406
Medium risk	1,148,203	2,981,280	195,509	4,324,992
High risk	502,646	131,664	188,412	822,722
Impaired	23,075	53,031	3,822	79,928
Total members' loans	\$ 8,480,966	\$ 5,290,178	\$ 1,141,053	\$ 14,912,197

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

As at January 31, 2021	Residential Mortgages	Commercial and Agriculture	Consumer and Credit Card	Loan Commitments and Guarantees	Total
Risk Categories					
Very low risk	\$ 1,031,895	\$ 109,247	\$ 600,417	\$ -	\$ 1,741,559
Low risk	998,076	837,705	318,278	43,944	2,198,003
Medium risk	47,991	236,329	62,588	-	346,908
High risk	8,450	417	110,344	-	119,211
Impaired	1,650	1,060	961	-	3,671
Total off balance sheet credit instruments	\$ 2,088,062	\$ 1,184,758	\$ 1,092,588	\$ 43,944	\$ 4,409,352

As at October 31, 2020	Residential Mortgages	Commercial and Agriculture	Consumer and Credit Card	Loan Commitments and Guarantees	Total
Risk Categories					
Very low risk	\$ 1,012,280	\$ 122,718	\$ 597,912	\$ -	\$ 1,732,910
Low risk	985,866	803,924	306,116	46,651	2,142,557
Medium risk	48,904	230,836	60,050	-	339,790
High risk	7,199	564	98,854	-	106,617
Impaired	910	245	673	-	1,828
Total off balance sheet credit instruments	\$ 2,055,159	\$ 1,158,287	\$ 1,063,605	\$ 46,651	\$ 4,323,702

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6. CREDIT QUALITY OF MEMBERS' LOANS (CONTINUED)

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, 5
High risk/impaired	624 or less	649 or less	6, 7, 8, and 9

Loans Past Due, as at January 31, 2021	Up to 30 Days	31 - 59 Days	60 to 89 Days	Over 90 Days	Total
Stage 1					
Residential mortgages	\$ 86,909	\$ -	\$ -	\$ -	86,909
Commercial and agriculture	15,729	-	-	-	15,729
Consumer and credit card	17,873	-	-	-	17,873
Stage 2					
Residential mortgages	24,937	35,402	16,967	11,530	88,836
Commercial and agriculture	10,087	53,860	857	37,709	102,513
Consumer and credit card	6,716	5,443	1,945	206	14,310
Stage 3					
Residential mortgages	-	-	-	18,771	18,771
Commercial and agriculture	9	100	620	49,570	50,299
Consumer and credit card	-	-	-	4,055	4,055
Total	\$ 162,260	\$ 94,805	\$ 20,389	\$ 121,841	\$ 399,295

Loans Past Due, as at October 31, 2020	Up to 30 Days	31 - 59 Days	60 to 89 Days	Over 90 Days	Total
Stage 1					
Residential mortgages	\$ 87,933	\$ -	\$ -	\$ -	87,933
Commercial and agriculture	15,698	-	-	-	15,698
Consumer and credit card	17,884	-	-	-	17,884
Stage 2					
Residential mortgages	34,333	26,947	6,188	7,797	75,265
Commercial and agriculture	1,832	36,052	1,730	40,413	80,027
Consumer and credit card	7,495	5,838	2,005	486	15,824
Stage 3					
Residential mortgages	-	-	-	22,467	22,467
Commercial and agriculture	19	15,190	182	33,698	49,089
Consumer and credit card	-	-	-	3,768	3,768
Total	\$ 165,194	\$ 84,027	\$ 10,105	\$ 108,629	\$ 367,955

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.

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6. CREDIT QUALITY OF MEMBERS' LOANS (CONTINUED)

Loans by Security	As at January 31 2021	As at October 31 2020
Insured loans and mortgages	\$ 3,026,716	\$ 3,013,715
Secured by mortgage	10,479,342	10,413,991
Secured by other	927,448	954,541
Unsecured loans	313,669	319,736
Unsecured mastercard	201,123	210,214
Total	\$ 14,948,298	\$ 14,912,197

7. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

As at January 31, 2021	Equity-linked Options	Interest Rate Swaps	Total
Derivative Financial Assets			
Gross financial assets before offsetting	\$ -	\$ 4,254	\$ 4,254
Gross financial liabilities before offsetting	-	(1,573)	(1,573)
Net derivative financial assets presented in the statement of financial position	-	2,681	2,681
Amounts not subject to enforceable netting arrangements	6,209	-	6,209
Total	\$ 6,209	\$ 2,681	\$ 8,890
Derivative Financial Liabilities			
Gross financial assets before offsetting	\$ -	\$ (7,418)	\$ (7,418)
Gross financial liabilities before offsetting	-	8,123	8,123
Net derivative financial liabilities presented in the statement of financial position	-	705	705
Amounts not subject to enforceable netting arrangements	6,114	-	6,114
Total	\$ 6,114	\$ 705	\$ 6,819

As at October 31, 2020	Equity-linked Options	Interest Rate Swaps	Total
<i>Derivative Financial Assets</i>			
Gross financial assets before offsetting	\$ -	\$ 14,737	\$ 14,737
Gross financial liabilities before offsetting	-	(6,060)	(6,060)
Net derivative financial assets presented in the statement of financial position	-	8,677	8,677
Amounts not subject to enforceable netting arrangements	4,353	-	4,353
Total	\$ 4,353	\$ 8,677	\$ 13,030
<i>Derivative Financial Liabilities</i>			
Gross financial assets before offsetting	\$ -	\$ (7,406)	\$ (7,406)
Gross financial liabilities before offsetting	-	7,808	7,808
Net derivative financial liabilities presented in the statement of financial position	-	402	402
Amounts not subject to enforceable netting arrangements	4,271	-	4,271
Total	\$ 4,271	\$ 402	\$ 4,673

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7. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

The notional amounts of derivative financial instrument contracts maturing at various times are:

	1 to 3 Months	3 to 12 Months	1 to 5 Years	As at January 31 2021	As at October 31 2020
Interest rate swaps					
receive fixed, pay floating	\$ 200,000	\$ -	\$ 850,000	\$ 1,050,000	\$ 1,850,000
Equity-linked options	21,210	3,800	27,850	52,860	46,025
Total	\$ 221,210	\$ 3,800	\$ 877,850	\$ 1,102,860	\$ 1,896,025

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.

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 January 31, 2021	Note	Carrying Value	Fair Value	Fair Value Difference
Financial Instrument Assets				
Cash and cash equivalents	a	\$ 299,483	\$ 299,483	-
Interest bearing deposits with financial institutions	c,e	1,557,622	1,557,914	292
Assets at fair value through profit or loss	d	9,165	9,165	-
Members' loans	b,c,e	14,880,195	15,065,158	184,963
Other	a	9,926	9,926	-
Total financial instrument assets		16,756,391	16,941,646	185,255
Financial Instrument Liabilities				
Members' deposits	b,c	14,058,469	14,096,046	(37,577)
Liabilities at fair value through profit or loss	d	6,819	6,819	-
Borrowings	b	200,000	200,000	-
Securitization liabilities	c	1,053,106	1,097,974	(44,868)
Payables and other financial liabilities	a	165,626	165,626	-
Total financial instrument liabilities		\$ 15,484,020	\$ 15,566,465	\$ (82,445)

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8. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

As at October 31, 2020	Note	Carrying Value	Fair Value	Fair Value Difference
<i>Financial Instrument Assets</i>				
Cash and cash equivalents	a	\$ 188,954	\$ 188,954	\$ -
Interest bearing deposits with financial institutions	c,e	1,627,109	1,627,525	416
Assets at fair value through profit or loss	d	13,300	13,300	-
Members' loans	b,c,e	14,845,263	15,030,156	184,893
Other	a	8,134	8,134	-
Total financial instrument assets		16,682,760	16,868,069	185,309
<i>Financial Instrument Liabilities</i>				
Members' deposits	b,c	13,856,560	13,905,470	(48,910)
Liabilities at fair value through profit or loss	d	4,673	4,673	-
Borrowings	b	200,000	200,000	-
Securitization liabilities	c	1,148,433	1,190,374	(41,941)
Payables and other financial liabilities	a	222,289	222,289	-
Total financial instrument liabilities		\$ 15,431,955	\$ 15,522,806	\$ (90,851)

(a) The fair values of cash, other financial assets and other liabilities are assumed to approximate book values, due to their short-term nature.

(b) The estimated fair values of floating rate member loans, member deposits and borrowings are assumed to equal their book values since the interest rates 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 use forward-looking information in the calculation of ECL.

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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:

As at January 31, 2021	Level 1	Level 2	Level 3	Total
Derivative assets	\$ -	\$ 8,890	\$ -	\$ 8,890
Investment shares in entities ⁽¹⁾	-	-	48	48
Shares in Concentra Trust ⁽¹⁾	-	-	227	227
Financial assets held at fair value	\$ -	\$ 8,890	\$ 275	\$ 9,165

Member shares - Series E	-	(446)	-	(446)
Derivative liabilities	-	(6,819)	-	(6,819)
Financial liabilities held at fair value	\$ -	\$ (7,265)	\$ -	\$ (7,265)

Fair value measurements using Level 3 inputs

Balance at October 31, 2020	\$	270
Purchases		5
Balance at January 31, 2021	\$	275

As at October 31, 2020	Level 1	Level 2	Level 3	Total
Derivative assets	\$ -	\$ 13,030	\$ -	\$ 13,030
Investment shares in entities ⁽¹⁾	-	-	43	43
Shares in Concentra Trust ⁽¹⁾	-	-	227	227
Financial assets held at fair value	\$ -	\$ 13,030	\$ 270	\$ 13,300

Member shares - Series E	-	(434)	-	(434)
Derivative liabilities	-	(4,673)	-	(4,673)
Financial liabilities held at fair value	\$ -	\$ (5,107)	\$ -	\$ (5,107)

Fair value measurements using Level 3 inputs

Balance at October 31, 2019	\$	269
Purchases		1
Balance at October 31, 2020	\$	270

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

9. 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.