

SERVUS CREDIT UNION LTD.

Interim Condensed Consolidated Financial Statements

For the six months ended

April 30, 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	April 30 2021	October 31 2020
Assets			
Cash and cash equivalents		\$ 97,162	\$ 188,954
Investments	4	1,620,152	1,627,385
Members' loans	5	15,072,997	14,845,263
Assets held for sale		4,790	6,671
Other assets		32,209	30,405
Property and equipment		135,796	137,342
Leased assets		53,732	53,487
Investment property		6,005	6,120
Derivative financial assets	8	6,864	13,030
Investment in associate		200,957	197,851
Intangible assets		60,294	61,786
Total assets		17,290,958	17,168,294
Liabilities			
Borrowings		200,000	200,000
Securitization liabilities		899,261	1,148,433
Members' deposits		14,176,555	13,856,560
Trade payables and other liabilities		217,266	222,113
Lease liabilities		59,006	58,124
Income taxes payable		4,043	830
Allowance for off balance sheet credit instruments	5,6	6,662	7,562
Derivative financial liabilities	8	12,208	4,673
Investment shares		442	434
Defined benefit plans		8,082	8,126
Deferred income tax liabilities		6,399	8,238
Total liabilities		15,589,924	15,515,093
Equity			
Share capital		680,951	686,549
Retained earnings		1,009,370	954,279
Accumulated other comprehensive income		10,713	12,373
Total equity		1,701,034	1,653,201
Total liabilities and equity		\$ 17,290,958	\$ 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 April 30 2021	Three months ended April 30 2020	Six months ended April 30 2021	Six months ended April 30 2020
Interest income				
Members' loans	\$ 125,893	\$ 140,724	\$ 258,273	\$ 290,964
Investments, including derivatives	9 (2,985)	14,899	(1,172)	20,161
Total interest income	122,908	155,623	257,101	311,125
Interest expense				
Members' deposits	21,427	41,490	47,966	88,412
Other interest expense	7,397	8,249	15,403	15,905
Total interest expense	28,824	49,739	63,369	104,317
Net interest income				
Other income	94,084	105,884	193,732	206,808
Share of profits from associate	36,728	29,931	67,723	60,584
	466	2,292	131	3,588
Net interest income and other income	131,278	138,107	261,586	270,980
(Recovery of) provision for credit losses	6 (8,808)	19,922	(4,492)	26,621
Net interest income and other income after provision for credit losses	140,086	118,185	266,078	244,359
Operating expenses				
Personnel	56,293	53,691	106,722	104,425
General	23,074	21,202	43,011	40,805
Occupancy	4,356	4,420	8,340	8,604
Member security	2,450	2,356	4,869	4,692
Depreciation	4,510	4,337	8,950	8,792
Organization	639	1,456	2,094	2,911
Impairment of assets	172	132	500	522
Amortization	2,951	2,783	6,042	5,560
Total operating expenses	94,445	90,377	180,528	176,311
Income before patronage allocation to members and income taxes				
	45,641	27,808	85,550	68,048
Patronage allocation to members	8,502	8,452	16,920	16,792
Income before income taxes	37,139	19,356	68,630	51,256
Income taxes	6,292	4,404	13,539	12,432
Net income	\$ 30,847	\$ 14,952	\$ 55,091	\$ 38,824

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

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

	Three months ended April 30 2021	Three months ended April 30 2020	Six months ended April 30 2021	Six months ended April 30 2020
Net income	\$ 30,847	\$ 14,952	\$ 55,091	\$ 38,824
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⁾				
	(3)	(26)	(172)	5
Items that may be reclassified subsequently to profit or loss:				
<i>Share of other comprehensive (loss) income from associate</i>				
Change in unrealized (loss) gain on debt securities at fair value through other comprehensive income securities ⁽³⁾	(803)	1,132	(1,495)	842
Reclassification adjustments for realized gain (loss) on debt securities ⁽⁴⁾				
	102	(34)	141	(18)
Total other comprehensive (loss) income	\$ (704)	\$ 1,072	\$ (1,660)	\$ 551
Total comprehensive income	\$ 30,143	\$ 16,024	\$ 53,431	\$ 39,375

⁽¹⁾ Net of income tax (recovery) for the six months ended April 30, 2021 of \$(40) (2020 - \$(83))

⁽²⁾ Net of income tax (recovery) expense for the three months ended April 30, 2021 of \$(1) (2020 - \$(8)), for the six months ended April 30, 2021 of \$(52) (2020 - \$1)

⁽³⁾ Net of income tax (recovery) expense for the three months ended April 30, 2021 of \$(239) (2020 - \$338), for the six months ended April 30, 2021 of \$(446) (2020 - \$251)

⁽⁴⁾ Net of income tax expense (recovery) for the three months ended April 30, 2021 of \$30 (2020 - \$(10)), for the six months ended April 30, 2021 of \$42 (2020 - \$(5))

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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	10,976	-	-	-	10,976
Redemption of share capital	(24,140)	(4,470)	-	-	(28,610)
Net income	-	-	38,824	-	38,824
Share of other comprehensive income from associate	-	-	-	551	551
Balance at April 30, 2020	\$ 547,629	\$ 116,585	\$ 948,193	\$ 11,648	\$ 1,624,055

	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	21,101	-	-	-	21,101
Redemption of share capital	(23,644)	(3,055)	-	-	(26,699)
Net income	-	-	55,091	-	55,091
Share of other comprehensive loss from associate	-	-	-	(1,660)	(1,660)
Balance at April 30, 2021	\$ 563,832	\$ 117,119	\$ 1,009,370	\$ 10,713	\$ 1,701,034

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

	Six months ended April 30 2021	Six months ended April 30 2020
Cash flows from (used in) operating activities		
Net income	\$ 55,091	\$ 38,824
Adjustments for non-cash items and others		
Net interest income ⁽¹⁾	(193,732)	(206,808)
(Recovery of) provision for credit losses	(4,492)	26,621
Share of profits from investment in associate	(131)	(3,588)
Depreciation	8,950	8,792
Amortization	6,042	5,560
Impairment of assets	500	522
(Gain) loss on leased assets	(21)	33
(Gain) loss on assets held for sale	(122)	31
Loss on disposal of property and equipment	337	64
Loss on disposal of intangible assets	-	120
Gain on loan modifications	(2,596)	-
Income taxes	13,539	12,432
Adjustments for net changes in operating assets and liabilities		
Change in members' loans	(256,125)	(159,943)
Change in members' deposits	341,144	346,121
Change in assets held for sale	(5,839)	(8,544)
Change in derivatives, net	13,701	(10,805)
Change in other assets, provisions, and trade payables and other liabilities, net	(7,591)	(57,988)
Income taxes paid, net	(12,165)	(2,217)
Interest received	290,860	299,340
Interest paid	(83,797)	(110,057)
Net cash from operating activities	163,553	178,510
Cash flows from (used in) investing activities		
Additions to intangible assets	(4,549)	(4,927)
Additions to property and equipment, and investment property	(4,663)	(4,369)
Proceeds on disposal of property and equipment, and investment property	63	92
Proceeds on disposal of assets held for sale	7,342	11,393
Purchase of Alberta Central shares	(8,418)	(963)
Distributions from Alberta Central	3,287	5,872
Proceeds from investments, net	8,053	(342,633)
Net cash from (used in) investing activities	1,115	(335,535)
Cash flows from (used in) financing activities		
Advances of securitization liabilities	41,637	349,179
Repayment of securitization liabilities	(289,948)	(185,885)
Repayment of principal portion of lease liabilities	(2,551)	(2,576)
Shares issued	21,101	10,976
Shares redeemed	(26,699)	(28,610)
Net cash (used in) from financing activities	(256,460)	143,084
Decrease in cash and cash equivalents	(91,792)	(13,941)
Cash and cash equivalents, beginning of period	188,954	107,760
Cash and cash equivalents, end of period	\$ 97,162	\$ 93,819

⁽¹⁾ Net interest income includes a fair value loss (gain) on derivatives for the six months ended April 30, 2021 of \$6,714 (2020 - \$(8,565))

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

SERVUS CREDIT UNION LTD.
Notes to Interim Condensed Consolidated Financial Statements
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1. BASIS OF PRESENTATION

These interim condensed consolidated financial statements are prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting as issued by the International Accounting Standards Board (IASB). The interim condensed consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with Servus Credit Union Ltd. ("Servus" or the "Credit Union") 2020 audited annual consolidated financial statements.

These interim condensed consolidated financial statements were approved by the Audit and Finance Committee on June 23, 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 COVID-19 pandemic continues to have an impact on judgments as well as significant estimates and assumptions made by management in preparing the Interim Condensed Consolidated Financial Statements. Refer to Note 6 for more information on significant judgments made to estimate the ECL.

2. ACCOUNTING POLICIES

These interim condensed consolidated financial statements have been prepared following the same accounting policies and methods as those used in preparing Servus' 2020 annual consolidated financial statements.

3. CURRENT AND FUTURE ACCOUNTING CHANGES

Adoption of Amendments to Standards in the Current Year

In March 2021, the IASB issued COVID-19 Related Rent Concessions Beyond June 30, 2021 (Amendment to IFRS 16) to extend the May 2020 amendment by one year. The amendment provides lessees with an exemption from assessing whether a COVID 19-related rent concession granted until June 30, 2022 (previously June 2021) is a lease modification. The amendment is effective for annual reporting beginning on or after April 1, 2021. Earlier application is also permitted.

SERVUS CREDIT UNION LTD.
Notes to Interim Condensed Consolidated Financial Statements
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3. CURRENT AND FUTURE ACCOUNTING CHANGES (CONTINUED)

The Credit Union has early adopted this amendment and has no COVID-19 related rent concessions, therefore there is no impact on the Credit Union's financial statements.

Future Accounting Changes

In addition to future accounting changes disclosed in the 2020 audited annual consolidated financial statements, the following amendments to existing accounting standards have been issued but are not yet effective on April 30, 2021. The Credit Union is currently assessing the impact of adopting the following standards.

Effective for the Credit Union — November 1, 2023

Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)

In February 2021, the IASB issued Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2). IAS 1 amendments require an entity to disclose its material accounting policies instead of its significant accounting policies and provide guidance on how an entity can identify material accounting policy information. In addition, IFRS Practice Statement 2 has been amended by adding guidance and examples to explain and demonstrate the application of the 'four-step materiality process' to accounting policy information in order to support the amendments to IAS 1.

Definition of Accounting Estimates (Amendments to IAS 8)

In February 2021, the IASB published Definition of Accounting Estimates (Amendments to IAS 8). The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates, where accounting estimates are defined as "monetary amounts in financial statements that are subject to measurement uncertainty". The amendments clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error.

4. INVESTMENTS

	As at April 30 2021	As at October 31 2020
Term deposits with Alberta Central	\$ 1,266,453	\$ 1,274,511
Term deposits with other financial institutions	350,000	350,000
Other	281	276
	1,616,734	1,624,787
Accrued interest	3,420	2,599
	1,620,154	1,627,386
ECL allowance on investments	(2)	(1)
Total	\$ 1,620,152	\$ 1,627,385

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Notes to Interim Condensed Consolidated Financial Statements
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5. MEMBERS' LOANS

The following table presents the carrying amount of loans and the exposure amount for off-balance sheet items according to the stage in which they are classified as well as the allowance for credit losses.

	Performing		Impaired		Total	Allowance for Credit Losses	Total Net of Allowance
	Stage 1	Stage 2	Stage 3				
As at April 30, 2021							
Residential mortgages	\$ 8,067,775	\$ 478,507	\$ 12,164	\$ 8,558,446	\$ 5,528	\$ 8,552,918	
Commercial and agriculture	5,246,158	194,871	52,416	5,493,445	38,063	5,455,382	
Consumer and credit card	1,003,515	72,126	3,349	1,078,990	14,293	1,064,697	
Total members' loans	\$ 14,317,448	\$ 745,504	\$ 67,929	\$ 15,130,881	\$ 57,884	\$ 15,072,997	
As at April 30, 2021							
Residential mortgages	\$ 2,094,134	\$ 15,156	\$ 720	\$ 2,110,010	\$ 371	\$ 2,109,639	
Commercial and agriculture	1,239,409	4,419	97	1,243,925	880	1,243,045	
Consumer and credit card	1,069,921	14,432	943	1,085,296	5,315	1,079,981	
Loan commitments and guarantees *	44,203	-	-	44,203	96	44,107	
Total off balance sheet credit instruments	\$ 4,447,667	\$ 34,007	\$ 1,760	\$ 4,483,434	\$ 6,662	\$ 4,476,772	

*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

6. ALLOWANCE FOR CREDIT LOSSES

Key Data and Assumptions

Estimating the allowance for ECL is based on a set of inputs, assumptions and methodologies placed around credit risk and future looking macroeconomic indicators and therefore requires significant judgment. Management has made complex and subjective judgments to assess the adequacy of the assumptions used to calculate the ECL at April 30, 2021.

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.

SERVUS CREDIT UNION LTD.
Notes to Interim Condensed Consolidated Financial Statements
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6. 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 April 30, 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).

Where a sensitivity analysis shows that the loan book has a risk that is not adequately covered by the model calculation, the sensitivity is used to provide justification for a management overlay to be applied to the ECL calculated by the model. These analyses are performed and assessed each reporting period to estimate the amount of a management overlay amount to add to the model results.

At April 30, 2021, management has applied an overlay of \$12.0 million (October 31, 2020 - \$ 14.0 million) on the commercial, consumer, residential mortgages, and credit card book.

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

	Residential Mortgages	Commercial and Agriculture	Consumer and Credit Card	Collectively Assessed ⁽¹⁾	Total
As at October 31, 2020	\$ 7,343	\$ 45,201	\$ 21,893	\$ 59	\$ 74,496
Recoveries of previous loan write-offs	11	121	2,825	-	2,957
Provision (recovery) charged to net income	808	(6,066)	728	37	(4,493)
	8,162	39,256	25,446	96	72,960
Loans written off	(2,263)	(313)	(5,838)	-	(8,414)
As at April 30, 2021	\$ 5,899	\$ 38,943	\$ 19,608	\$ 96	\$ 64,546
Presented on Interim Condensed Consolidated Statement of Financial Position as:					
Netted with members' loans	5,528	38,063	14,293	-	57,884
Off balance sheet credit instruments ⁽²⁾	371	880	5,315	96	6,662
Total	\$ 5,899	\$ 38,943	\$ 19,608	\$ 96	\$ 64,546

	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

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6. ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

The provision charged to net income is:

	Six months ended April 30 2021	Six months ended April 30 2020
Loans	\$ (4,493)	\$ 26,620
Investments	1	1
Provision for credit losses	\$ (4,492)	\$ 26,621

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		
As at October 31, 2020	\$ 1,996	\$ 3,858	\$ 1,489	\$	7,343
Transfers					
Stage 1 ⁽¹⁾	203	(201)	(2)		-
Stage 2 ⁽¹⁾	(734)	906	(172)		-
Stage 3 ⁽¹⁾	(115)	(802)	917		-
New originations ⁽²⁾	354	360	-		714
Repayments ⁽³⁾	(174)	(223)	(227)		(624)
Remeasurements ⁽⁴⁾	738	(1,222)	1,202		718
Loans written off	-	-	(2,263)		(2,263)
Recoveries	-	-	11		11
As at April 30, 2021	\$ 2,268	\$ 2,676	\$ 955	\$	5,899
Presented on Interim Condensed Consolidated Statement of Financial Position as:					
Netted with members' loans	1,961	2,612	955		5,528
Off balance sheet credit instruments	307	64	-		371
Total	\$ 2,268	\$ 2,676	\$ 955	\$	5,899

	Performing		Impaired		Total
	Stage 1	Stage 2	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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6. ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

Commercial and Agriculture

	Performing		Impaired		Total
	Stage 1	Stage 2	Stage 3	Stage 3	
As at October 31, 2020	\$ 7,645	\$ 14,471	\$ 23,085	\$	45,201
Transfers					
Stage 1 ⁽¹⁾	787	(786)	(1)		-
Stage 2 ⁽¹⁾	(1,866)	1,963	(97)		-
Stage 3 ⁽¹⁾	(374)	(818)	1,192		-
New originations ⁽²⁾	688	31	46		765
Repayments ⁽³⁾	(445)	(308)	(515)		(1,268)
Remeasurements ⁽⁴⁾	(1,650)	(3,346)	(567)		(5,563)
Loans written off	-	-	(313)		(313)
Recoveries	-	-	121		121
As at April 30, 2021	\$ 4,785	\$ 11,207	\$ 22,951	\$	38,943
Presented on Interim Condensed Consolidated Statement of Financial Position as:					
Netted with members' loans	3,948	11,192	22,923		38,063
Off balance sheet credit instruments	837	15	28		880
Total	\$ 4,785	\$ 11,207	\$ 22,951	\$	38,943

	Performing		Impaired		Total
	Stage 1	Stage 2	Stage 3	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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6. ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

Consumer and Credit Card

	Performing		Impaired		Total
	Stage 1	Stage 2	Stage 3		
As at October 31, 2020	\$ 8,925	\$ 11,337	\$ 1,631	\$	21,893
Transfers					
Stage 1 ⁽¹⁾	512	(502)	(10)		-
Stage 2 ⁽¹⁾	(1,899)	2,059	(160)		-
Stage 3 ⁽¹⁾	(354)	(1,811)	2,165		-
New originations ⁽²⁾	1,800	388	-		2,188
Repayments ⁽³⁾	(574)	(324)	(800)		(1,698)
Remeasurements ⁽⁴⁾	(14)	(1,558)	1,810		238
Loans written off	-	-	(5,838)		(5,838)
Recoveries	-	-	2,825		2,825
As at April 30, 2021	\$ 8,396	\$ 9,589	\$ 1,623	\$	19,608
Presented on Interim Condensed Consolidated Statement of Financial Position as:					
Netted with members' loans	4,238	8,463	1,592		14,293
Off balance sheet credit instruments	4,158	1,126	31		5,315
Total	\$ 8,396	\$ 9,589	\$ 1,623	\$	19,608

	Performing		Impaired		Total
	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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7. CREDIT QUALITY OF MEMBERS' LOANS

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

As at April 30, 2021	Residential Mortgages	Commercial and Agriculture	Consumer and Credit Card	Total
Risk Categories				
Very low risk	\$ 3,428,718	\$ 37,892	\$ 310,044	\$ 3,776,654
Low risk	3,624,094	2,059,558	411,791	6,095,443
Medium risk	1,032,063	3,214,182	184,716	4,430,961
High risk	461,407	129,397	169,090	759,894
Impaired	12,164	52,416	3,349	67,929
Total members' loans	\$ 8,558,446	\$ 5,493,445	\$ 1,078,990	\$ 15,130,881

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 April 30, 2021	Residential Mortgages	Commercial and Agriculture	Consumer and Credit Card	Loan Commitments and Guarantees	Total
Risk Categories					
Very low risk	\$ 1,054,234	\$ 108,392	\$ 614,915	-	\$ 1,777,541
Low risk	1,000,115	877,457	305,936	44,203	2,227,711
Medium risk	45,302	257,310	58,389	-	361,001
High risk	9,639	669	105,113	-	115,421
Impaired	720	97	943	-	1,760
Total off balance sheet credit instruments	\$ 2,110,010	\$ 1,243,925	\$ 1,085,296	\$ 44,203	\$ 4,483,434

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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7. 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 April 30, 2021	Up to 30 Days	31 to 59 Days	60 to 89 Days	Over 90 Days	Total
Stage 1					
Residential mortgages	\$ 121,822	\$ -	\$ -	\$ -	121,822
Commercial and agriculture	14,643	-	-	-	14,643
Consumer and credit card	15,006	-	-	-	15,006
Stage 2					
Residential mortgages	36,955	9,998	15,858	9,503	72,314
Commercial and agriculture	21,194	4,010	19,462	35,128	79,794
Consumer and credit card	6,627	3,607	1,790	250	12,274
Stage 3					
Residential mortgages	-	-	-	11,954	11,954
Commercial and agriculture	277	112	1,098	33,705	35,192
Consumer and credit card	-	-	-	3,292	3,292
Total	\$ 216,524	\$ 17,727	\$ 38,208	\$ 93,832	\$ 366,291

Loans Past Due, as at October 31, 2020	Up to 30 Days	31 to 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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7. CREDIT QUALITY OF MEMBERS' LOANS (CONTINUED)

Loans by Security	As at April 30 2021	As at October 31 2020
Insured loans and mortgages	\$ 3,031,548	\$ 3,013,715
Secured by mortgage	10,658,577	10,413,991
Secured by other	922,870	954,541
Unsecured loans	313,535	319,736
Unsecured mastercard	204,351	210,214
Total	\$ 15,130,881	\$ 14,912,197

8. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

As at April 30, 2021	Equity-linked Options	Interest Rate Swaps	Total
Derivative Financial Assets Amounts not subject to enforceable netting arrangements	\$ 6,864	\$ -	\$ 6,864
Derivative Financial Liabilities			
Gross financial assets before offsetting	\$ -	\$ (8,613)	\$ (8,613)
Gross financial liabilities before offsetting	-	14,068	14,068
Net derivative financial liabilities presented in the statement of financial position	-	5,455	5,455
Amounts not subject to enforceable netting arrangements	6,753	-	6,753
Total	\$ 6,753	\$ 5,455	\$ 12,208

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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8. 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 2021	As at October 31 2020
Interest rate swaps					
receive fixed, pay floating	\$ -	\$ -	\$ 850,000	\$ 850,000	\$ 1,850,000
Equity-linked options	3,800	2,300	59,200	65,300	46,025
Total	\$ 3,800	\$ 2,300	\$ 909,200	\$ 915,300	\$ 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.

9. INVESTMENT INCOME

	Three months ended April 30 2021	Three months ended April 30 2020	Six months ended April 30 2021	Six months ended April 30 2020
Investment income on term deposits and other	\$ 1,766	\$ 4,758	\$ 3,812	\$ 10,167
Unrealized (loss) gain on derivative instruments	(5,464)	8,399	(6,616)	8,538
Realized gain on derivative instruments	713	1,742	1,632	1,456
Total	\$ (2,985)	\$ 14,899	\$ (1,172)	\$ 20,161

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10. 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, 2021	Note	Carrying Value	Fair Value	Fair Value Difference
Financial Instrument Assets				
Cash and cash equivalents	a	\$ 97,162	\$ 97,162	-
Interest bearing deposits with financial institutions	c,e	1,619,871	1,620,029	158
Assets at fair value through profit or loss	d	7,138	7,138	-
Members' loans	b,c,e	15,072,997	15,178,832	105,835
Other	a	11,060	11,060	-
Total financial instrument assets		16,808,228	16,914,221	105,993
Financial Instrument Liabilities				
Members' deposits	b,c	14,176,555	14,198,617	(22,062)
Liabilities at fair value through profit or loss	d	12,208	12,208	-
Borrowings	a	200,000	200,000	-
Securitization liabilities	c	899,261	933,170	(33,909)
Payables and other financial liabilities	a	210,958	210,958	-
Total financial instrument liabilities		\$ 15,498,982	\$ 15,554,953	\$ (55,971)
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	215,510	215,510	-
Total financial instrument liabilities		\$ 15,425,176	\$ 15,516,027	\$ (90,851)

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

(b) The estimated fair values of floating rate member loans, member deposits and borrowings are assumed to equal their book values since the interest rates automatically reprice to market.

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

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10. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(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.

The following table provides an analysis of the financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which fair value is observable:

As at April 30, 2021	Level 1	Level 2	Level 3	Total
Derivative assets	-	6,864	-	6,864
Investment shares in entities ⁽¹⁾	-	-	47	47
Shares in Concentra Trust ⁽¹⁾	-	-	227	227
Financial assets held at fair value	-	6,864	274	7,138
Member shares - Series E	-	(442)	-	(442)
Derivative liabilities	-	(12,208)	-	(12,208)
Financial liabilities held at fair value	-	(12,650)	-	(12,650)

Fair value measurements using Level 3 inputs

Balance at October 31, 2020	\$	270
Purchases		4
Balance at April 30, 2021	\$	274

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

11. 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.