SERVUS CREDIT UNION LTD.

Interim Condensed Consolidated Financial Statements

For the nine months ended

July 31, 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		**July 31 2019**		October 31 2018
Assets					
Cash and cash equivalents		**$**	**96,675**	$	123,612
Investments	4		**1,295,562**		1,268,128
Members' loans	5		**14,466,433**		14,294,509
Income taxes receivable			**2,933**		8,345
Assets held for sale			**11,065**		8,086
Other assets			**36,242**		19,166
Property and equipment			**140,826**		142,936
Investment property			**4,668**		5,006
Derivative financial assets	8		**8,077**		5,998
Investment in associate			**192,338**		184,587
Intangible assets			**62,513**		66,273
Deferred income tax assets			**-**		607
Total assets			**16,317,332**		16,127,253
Liabilities					
Borrowings			**250,000**		250,000
Securitization liabilities			**1,230,338**		1,329,762
Members' deposits			**13,037,568**		12,826,156
Trade payables and other liabilities			**185,165**		178,301
Income taxes payable			**102**		-
Allowance for off balance sheet credit instruments	5,6		**6,826**		-
Derivative financial liabilities	8		**8,870**		12,372
Investment shares			**419**		427
Defined benefit plans			**7,411**		7,356
Deferred income tax liabilities			**11,461**		11,404
Total liabilities			**14,738,160**		14,615,778
Equity					
Share capital			**657,705**		670,275
Retained earnings			**908,948**		833,009
Accumulated other comprehensive income			**11,515**		7,217
Total equity attributable to members of the Credit Union			**1,578,168**		1,510,501
Non-controlling interest			**1,004**		974
Total equity			**1,579,172**		1,511,475
Total liabilities and equity		**$**	**16,317,332**	$	16,127,253

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 July 31 2019**	Three months ended July 31 2018	**Nine months ended July 31 2019**	Nine months ended July 31 2018
Interest income					
Members' loans		**$ 149,014**	$ 138,673	**$ 440,331**	$ 395,782
Investments		**5,415**	4,782	**21,922**	11,277
Total interest income		**154,429**	143,455	**462,253**	407,059
Interest expense					
Members' deposits		**47,007**	35,171	**136,686**	96,747
Other interest expense		**8,371**	8,137	**26,139**	21,448
Total interest expense		**55,378**	43,308	**162,825**	118,195
Net interest income		**99,051**	100,147	**299,428**	288,864
Other income		**33,529**	32,553	**91,789**	85,015
Share of profits from associate		**1,778**	1,404	**6,017**	6,220
Net interest income and other income		**134,358**	134,104	**397,234**	380,099
Provision for credit losses	6	**6,429**	7,313	**11,810**	17,764
Net interest income after provision for credit losses		**127,929**	126,791	**385,424**	362,335
Operating expenses					
Personnel		**47,526**	48,034	**148,847**	147,258
General		**16,788**	19,808	**55,444**	52,193
Occupancy		**5,534**	5,285	**16,185**	15,448
Member security		**3,590**	3,426	**10,710**	10,311
Depreciation		**2,955**	3,151	**9,109**	9,698
Organization		**1,400**	1,397	**3,614**	3,311
Impairment of assets		**142**	199	**388**	575
Amortization		**2,636**	2,481	**7,778**	6,631
Total operating expenses		**80,571**	83,781	**252,075**	245,425
Income before patronage allocation to members and income taxes		**47,358**	43,010	**133,349**	116,910
Patronage allocation to members		**8,453**	8,002	**25,291**	23,916
Income before income taxes		**38,905**	35,008	**108,058**	92,994
Income taxes		**7,249**	9,740	**25,955**	25,397
Net income		**$ 31,656**	$ 25,268	**$ 82,103**	$ 67,597

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 July 31 2019	Three months ended July 31 2018	Nine months ended July 31 2019	Nine months ended July 31 2018
Net income		**$ 31,656**	$ 25,268	**$ 82,103**	$ 67,597
Other comprehensive income for the year, net of tax:					
Items that may be reclassified subsequently to profit or loss:					
Unrealized gain and reclassification adjustments on fair value through other comprehensive income securities [1]		**-**	-	**1,756**	-
Reclassification of net gains to net income [2]		**-**	-	**(114)**	-
Share of other comprehensive income (loss) from associate					
Actuarial gain (loss) on defined benefit pension plans [3]		**-**	-	**92**	(108)
Items that will not be reclassified to profit or loss:					
Share of other comprehensive income from associate					
Unrealized gain and reclassification adjustments on available for sale securities [4]		**507**	1,035	**2,564**	8,597
Total other comprehensive income		**$ 507**	$ 1,035	**$ 4,298**	$ 8,489
Total comprehensive income		**$ 32,163**	$ 26,303	**$ 86,401**	$ 76,086
Total comprehensive income					
Comprehensive income attributable to members		**32,160**	26,309	**86,371**	76,120
Comprehensive income (loss) attributable to non-controlling interest		**3**	(6)	**30**	(34)
Total comprehensive income		**$ 32,163**	$ 26,303	**$ 86,401**	$ 76,086

[1] *Net of income tax expense for the three months ended July 31st of $0, for the nine months ended July 31st of $649.*

[2] *Net of income tax expense for the three months ended July 31st of $0, for the nine months ended July 31st of $42.*

[3] *Net of income tax expense (recovery) for the three months ended July 31st of $0, for the nine months ended July 31st of $34, 2018 - $(40) .*

[4] *Net of income tax (recovery) expense for the three months ended July 31st of $(498), 2018 - $382, for the nine months ended July 31st $263, 2018 - $3,179.*

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)

	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		17,213	-	-	-	-	17,213
Redemption of share capital		(27,373)	(3,392)	-	-	-	(30,765)
Net income (loss)		-	-	67,631	-	(34)	67,597
Fair value adjustment for investments		-	-	-	(833)	-	(833)
Share of other comprehensive loss from associate		-	-	-	9,322	-	9,322
Balance at July 31, 2018		$ 531,312	$ 114,735	$ 831,267	$ 8,345	$ 988	$ 1,486,647

	Notes	Common Shares	Investment Shares	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Non-controlling Interest	Total Equity
Balance at October 31, 2018 as previously reported		**$ 550,767**	**$ 119,508**	**$ 833,009**	**$ 7,217**	**$ 974**	**$ 1,511,475**
Impact of adoption of IFRS 9	3	**-**	**-**	**(6,134)**	**-**	**-**	**(6,134)**
Balance at November 1, 2018		**550,767**	**119,508**	**826,875**	**7,217**	**974**	**1,505,341**
Changes in equity							
Issues of share capital		**20,085**	**-**	**-**	**-**	**-**	**20,085**
Redemption of share capital		**(29,027)**	**(3,628)**	**-**	**-**	**-**	**(32,655)**
Net income		**-**	**-**	**82,073**	**-**	**30**	**82,103**
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		**-**	**-**	**-**	**2,656**	**-**	**2,656**
Balance at July 31, 2019		**$ 541,825**	**$ 115,880**	**$ 908,948**	**$ 11,515**	**$ 1,004**	**$ 1,579,172**

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	**Nine months ended July 31 2019**	Nine months ended July 31 2018
Cash flows from (used in) operating activities			
Net income		**$ 82,103**	$ 67,597
Adjustments for non-cash items and others			
Net interest income		**(299,428)**	(288,864)
Provision for credit losses		**11,810**	17,764
Share of profits from investment in associate		**(6,017)**	(6,220)
Depreciation and amortization		**16,887**	16,329
Impairment of assets		**388**	575
Gain from amalgamations		**(3,815)**	(4,199)
Gain on assets held for sale		**(41)**	(223)
Gain loss on disposal of property and equipment		**(9)**	(196)
Loss on disposal of intangible assets		**-**	33
Income taxes		**25,955**	25,397
Adjustments for net changes in operating assets and liabilities			
Change in members' loans		**(183,841)**	(478,344)
Change in members' deposits		**197,312**	130,836
Change in assets held for sale		**(16,997)**	(10,767)
Net change in other assets, provisions, and trade payables and other liabilities		**(19,989)**	14,180
Income taxes received and (paid), net		**(17,508)**	(16,189)
Interest received		**460,906**	402,467
Interest paid		**(148,725)**	(113,572)
Net cash from (used in) operating activities		**98,991**	(243,396)
Cash flows from (used in) investing activities			
Additions to intangible assets		**(4,083)**	(30,883)
Additions to property and equipment, and investment property		**(5,535)**	(4,126)
Proceeds on disposal of property and equipment, and investment property		**367**	1,269
Proceeds on disposal of assets held for sale		**13,735**	12,172
Purchase of Alberta Central shares		**(3,940)**	(1,950)
Distributions from Alberta Central		**5,160**	10,456
Change in derivatives		**(5,581)**	24,951
Investments		**(25,915)**	(210,167)
Net cash used in investing activities		**(25,792)**	(198,278)
Cash flows from (used in) financing activities			
Term loans and lines of credit		**-**	150,000
Advances of securitization liabilities		**201,211**	606,286
Repayment of securitization liabilities		**(288,609)**	(314,099)
Repayment of obligation under finance leases		**(168)**	-
Shares issued		**20,085**	17,213
Shares redeemed		**(32,655)**	(30,765)
Net cash (used in) from financing activities		**(100,136)**	428,635
Decrease in cash and cash equivalents		**(26,937)**	(13,039)
Cash and cash equivalents, beginning of period		**123,612**	93,425
Cash and cash equivalents, end of period		**$ 96,675**	$ 80,386

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)
(unaudited)

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 September 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 second quarter, Servus changed the process for estimating the Expected Credit Losses based on their experience in the first quarter. At the first quarter, 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 recorded in the second quarter.

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 July 31, 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.

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 securitiziation 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.

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.

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)

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 Credit Union Central Alberta Limited 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.

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 securitiziation 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.

(Canadian $ thousands)

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 second 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
Assets				
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
Total assets	16,140,473	-	(1,625)	16,138,848
Liabilities				
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
Total liabilities	14,628,998	-	4,509	14,633,507
Equity				
Share capital	670,275	-	-	670,275
Retained earnings	833,009	-	(6,134)	826,875
Accumulated other comprehensive income	7,217	-	-	7,217
Total equity attributable to members of the Credit Union	1,510,501	-	(6,134)	1,504,367
Non-controlling interest	974	-	-	974
Total equity	1,511,475	-	(6,134)	1,505,341
Total liabilities and equity	$ 16,140,473	$ -	$ (1,625)	$ 16,138,848

(Canadian $ thousands)

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 31, 2018 IAS 39		Remeasurement		As at November 1, 2018 IFRS 9
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
Total	$	41,511	$	8,403	$	49,914

** 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. INVESTMENTS

		As at July 31 2019		As at October 31 2018
Term deposits with Alberta Central	**$**	**1,276,971**	$	1,090,060
Mortgage backed security bonds		**-**		174,079
Other		**15,747**		1,022
		1,292,718		1,265,161
Accrued interest		**2,846**		2,967
	$	**1,295,564**	$	1,268,128
ECL allowance on investments		**(2)**		-
Total	**$**	**1,295,562**	$	1,268,128

(Canadian $ thousands)

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		Allowance for	Total Net of
	Stage 1	Stage 2	Stage 3	Total	Credit Losses	Allowance
As at July 31, 2019						
Residential Mortgages	$ 7,611,036	$ 701,221	$ 17,904	$ 8,330,161	$ 3,281	$ 8,326,880
Commercial and Agriculture	4,745,996	103,681	80,910	4,930,587	20,968	4,909,619
Consumer loans and Credit Card	1,111,958	126,184	7,339	1,245,481	15,547	1,229,934
Total Member Loans	$ 13,468,990	$ 931,086	$ 106,153	$ 14,506,229	$ 39,796	$ 14,466,433
As at July 31, 2019						
Residential Mortgages	$ 1,424,867	$ 17,875	$ 680	$ 1,443,422	$ 104	$ 1,443,318
Commercial and Agriculture	1,060,823	6,006	527	1,067,356	591	1,066,765
Consumer loans and Credit Card	1,030,470	23,676	707	1,054,853	5,991	1,048,862
Loan Commitments and Guarantees *	-	45,519	-	45,519	140	45,379
Total Off Balance Sheet Credit Instruments	$ 3,516,160	$ 93,076	$ 1,914	$ 3,611,150	$ 6,826	$ 3,604,324

*collectively assessed

	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	-
Total	$ 14,336,020	$ 17,507	$ 24,004	$ 14,294,509	$ 22,564

6. 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 (1)	Total
As at November 1, 2018	$ 3,595	$ 22,526	$ 23,653	$ 140	$ 49,914
Edson CU amalgamation adjustment	-	-	10	-	10
Recoveries of previous loan write-offs	1	178	4,488	-	4,667
Provision charged to net income	1,387	309	10,112	-	11,808
	4,983	23,013	38,263	140	66,399
Loans written off	(1,598)	(1,454)	(16,725)	-	(19,777)
As at July 31, 2019	$ 3,385	$ 21,559	$ 21,538	$ 140	$ 46,622
Presented on Interim Condensed Consolidated Statement of Financial Position as:					
Netted with Member loans	3,281	20,968	15,547	-	39,796
Off balance sheet credit instruments (2)	104	591	5,991	140	6,826
Total	$ 3,385	$ 21,559	$ 21,538	$ 140	$ 46,622

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

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

(Canadian $ thousands)

6. ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

The provision charged to net income for July 31, 2019 is:

Loans		$	11,808
Investments	Note 4		2
Total ECL Provision		**$**	**11,810**

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	
	Stage 1	**Stage 2**	**Stage 3**	**Total**
As at November 1, 2018	**$ 1,026**	**$ 1,925**	**$ 644**	**$ 3,595**
Transfers				
Stage 1 (1)	**133**	**(130)**	**(3)**	**-**
Stage 2 (1)	**(673)**	**775**	**(102)**	**-**
Stage 3 (1)	**(144)**	**(684)**	**828**	**-**
New originations (2)	**172**	**343**	**-**	**515**
Repayments (3)	**(94)**	**(290)**	**975**	**591**
Remeasurements (4)	**591**	**(264)**	**(46)**	**281**
Loans written off	**-**	**-**	**(1,598)**	**(1,598)**
Recoveries	**-**	**-**	**1**	**1**
As at July 31, 2019	**$ 1,011**	**$ 1,675**	**$ 699**	**$ 3,385**
Presented on Interim Condensed Consolidated Statement of Financial Position as:				
Member loans	**941**	**1,641**	**699**	**3,281**
Off balance sheet credit instruments	**70**	**34**	**-**	**104**
Total	**$ 1,011**	**$ 1,675**	**$ 699**	**$ 3,385**

(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 loan fully repaid or derecognized and excluded loans written off where a credit loss was incurred

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

(Canadian $ thousands)

6. ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

Allowance for loan losses - Commercial and Agriculture

	Performing		Impaired	
	Stage 1	Stage 2	Stage 3	Total
As at November 1, 2018	$ 2,811	$ 565	$ 19,150	$ 22,526
Transfers				
Stage 1 [1]	79	(74)	(5)	-
Stage 2 [1]	(288)	801	(513)	-
Stage 3 [1]	(4,427)	(2,683)	7,110	-
New originations [2]	711	17	84	812
Repayments [3]	(263)	(114)	(2,132)	(2,509)
Remeasurements [4]	4,208	2,250	(4,452)	2,006
Loans written off	-	-	(1,454)	(1,454)
Recoveries	-	-	178	178
As at July 31, 2019	$ 2,831	$ 762	$ 17,966	$ 21,559
Presented on Interim Condensed Consolidated Statement of Financial Position as:				
Member loans	2,317	755	17,896	20,968
Off balance sheet credit instruments	514	7	70	591
Total	$ 2,831	$ 762	$ 17,966	$ 21,559

[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 loan fully repaid or derecognized and excluded loans written off where a credit loss was incurred
[4] Represents the change in the allowance due to changes in economic factors, risk and model parameters

Allowance for loan losses - Consumer and Credit Card

	Performing		Impaired	
	Stage 1	Stage 2	Stage 3	Total
As at November 1, 2018	$ 7,315	$ 10,704	$ 5,634	$ 23,653
Edson CU Opening Adjustment	10	-	-	10
Transfers				
Stage 1 [1]	643	(623)	(20)	-
Stage 2 [1]	(4,169)	4,832	(663)	-
Stage 3 [1]	(976)	(7,636)	8,612	-
New originations [2]	2,605	463	14	3,082
Repayments [3]	(514)	(1,059)	8,851	7,278
Remeasurements [4]	3,263	3,081	(6,592)	(248)
Loans written off	-	-	(16,725)	(16,725)
Recoveries	-	-	4,488	4,488
As at July 31, 2019	$ 8,177	$ 9,762	$ 3,599	$ 21,538
Presented on Interim Condensed Consolidated Statement of Financial Position as:				
Member loans	4,266	7,812	3,469	15,547
Off balance sheet credit instruments	3,911	1,950	130	5,991
Total	$ 8,177	$ 9,762	$ 3,599	$ 21,538

[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 loan fully repaid or derecognized and excluded loans written off where a credit loss was incurred
[4] Represents the change in the allowance due to changes in economic factors, risk and model parameters

(Canadian $ thousands)

6. ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

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

Specific Allowance

	Residential	Commercial	Consumer	Agricultural	Credit Card	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 Card	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

7. CREDIT QUALITY OF MEMBERS' LOANS

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

As at July 31, 2019	Residential Mortgages	Commercial and Agriculture	Consumer and Credit Card	Total
Risk Categories				
Very low risk	$ 2,836,090	$ 7,634	$ 290,164	$ 3,133,888
Low risk	3,564,418	2,465,588	450,770	6,480,776
Medium risk	1,255,958	2,340,658	225,709	3,822,325
High risk	655,791	35,797	271,499	963,087
Impaired	17,904	80,910	7,339	106,153
Total Loans	$ 8,330,161	$ 4,930,587	$ 1,245,481	$ 14,506,229

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

As at July 31, 2019	Residential Mortgages	Commercial and Agriculture	Consumer and Credit Card	Loan Commitments and Guarantees	Total
Risk Categories					
Very low risk	$ 959,206	$ 16,532	$ 549,827	$ -	$ 1,525,565
Low risk	433,794	866,561	327,643	-	1,627,998
Medium risk	41,608	183,472	70,373	45,519	340,972
High risk	8,134	264	106,303	-	114,701
Impaired	680	527	707	-	1,914
Total Loan Commitments	$ 1,443,422	$ 1,067,356	$ 1,054,853	$ 45,519	$ 3,611,150

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

(Canadian $ thousands)

7. CREDIT QUALITY OF MEMBERS' LOANS (CONTINUED)

Risk Assessment	Mortgage Beacon Score Range [1]	Consumer & Credit Card Beacon Score Range [2]	Risk Rating Range [3]
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

(1) *Used for residential mortgages*

(2) *Used for consumer loans and credit cards*

(3) *Used for commerical and agriculture mortgages and loans.*

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

As at October 31, 2018	Residential	Commercial	Consumer	Agricultural	Credit Card	Total
Risk Categories						
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
Total	$ 8,240,413	$ 4,427,070	$ 1,033,432	$ 401,784	$ 233,321	$ 14,336,020

- 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.

Loans Past Due, as at July 31, 2019	**Up to 30 days**	**31 - 59 days**	**60 to 89 days**	**over 90 days**	**Total**
Stage 1					
Consumer and credit card	**$ 21,160**	**$ -**	**$ -**	**$ -**	**$ 21,160**
Commercial and agriculture	**58,986**	**-**	**-**	**-**	**58,986**
Residential mortgages	**91,450**	**-**	**-**	**-**	**91,450**
Stage 2 [1]					
Consumer and credit card	**10,511**	**12,161**	**4,303**	**296**	**27,271**
Commercial and agriculture	**415**	**37,500**	**12,608**	**12,493**	**63,016**
Residential mortgages	**41,339**	**46,990**	**21,154**	**11,096**	**120,579**
Stage3					
Consumer and credit card	**-**	**-**	**-**	**7,183**	**7,183**
Commercial and agriculture	**315**	**1,686**	**593**	**42,181**	**44,775**
Residential mortgages	**-**	**-**	**-**	**17,692**	**17,692**
Total	**$ 224,176**	**$ 98,337**	**$ 38,658**	**$ 90,941**	**$ 452,112**

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

(Canadian $ thousands)

7. CREDIT QUALITY OF MEMBERS' LOANS (CONTINUED)

Loans past due, as at October 31, 2018

	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
Total	$ 206,154	$ 95,103	$ 27,694	$ 13,164	$ 29,791	$ 371,906

The Credit Union has documented policies and procedures in place for the valuation of financial and non-financial collateral. For impaired loans, an assessment of the collateral is taken into consideration when estimating the net realizable amount of the loans.

The amount and types of collateral required depend on the Credit Union's assessment of members' credit quality and repayment capacity. Non-financial collateral taken by the Credit Union includes vehicles, residential real estate, real estate under development, business assets such as trade receivables, inventory, and property and equipment. The main types of financial collateral taken by the Credit Union include mortgage, cash, negotiable securities and investments. Guarantees are also taken to reduce credit exposure risk.

	As at July 31 2019	As at October 31 2018
Loans by security		
Insured loans and mortgages	**$ 2,871,873**	$ 2,801,700
Secured by mortgage	**9,956,094**	9,416,496
Secured by other	**1,129,601**	1,018,589
Unsecured	**548,661**	1,099,235
Total	**$ 14,506,229**	$ 14,336,020

(Canadian $ thousands)

8. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

As at July 31, 2019	**Equity-linked Options**	**Interest Rate Swaps**	**Total**
Derivative Financial Assets			
Gross amounts of financial assets before statement of financial position offsetting	**$ -**	**$ 14,668**	**$ 14,668**
Gross amounts of financial liabilities before statement of financial position offsetting	**-**	**(13,679)**	**(13,679)**
Net amount of financial assets presented on the statement of financial position	**-**	**989**	**989**
Amounts not subject to enforceable netting arrangements	**7,088**	**-**	**7,088**
Total	**$ 7,088**	**$ 989**	**$ 8,077**
Derivative Financial Liabilities			
Gross amounts of financial assets before statement of financial position offsetting	**$ -**	**$ (13,008)**	**$ (13,008)**
Gross amounts of financial liabilities before statement of financial position offsetting	**-**	**14,894**	**14,894**
Net amount of financial liabilities presented on the statement of financial position	**-**	**1,886**	**1,886**
Amounts not subject to enforceable netting arrangements	**6,984**	**-**	**6,984**
Total	**$ 6,984**	**$ 1,886**	**$ 8,870**

As at October 31, 2018	Equity-linked Options	Interest Rate Swaps	Total
Derivative Financial Asset amounts not subject to enforcable netting arangements	$ 5,998	$ -	$ 5,998
Derivative Financial Liabilities			
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
Total	$ 5,942	$ 6,430	$ 12,372

(Canadian $ thousands)

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 July 31 2019	As at October 31 2018
Interest rate swaps receive fixed, pay floating	$ -	$ 1,000,000	$ 1,000,000	$ 2,000,000	$ 1,000,000
Equity-linked options	-	30,380	46,025	76,405	87,875
Total	$ -	$ 1,030,380	$ 1,046,025	$ 2,076,405	$ 1,087,875

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.

(Canadian $ thousands)

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

The amounts set out in the table below represent the carrying amounts and fair values of the Credit Union's financial instruments using the valuations and assumptions described below. The amounts do not include the fair values of items that are not considered financial assets, such as property and equipment and investment in associate.

		As at July 31, 2019		
	Note	Carrying Value	Fair Value	Fair Value Difference
Financial Instrument Assets				
Cash and cash equivalents	a	$ 96,675	$ 96,675	$ -
Interest bearing deposits with financial institutions	c	1,295,287	1,295,357	70
Assets at amortized cost	e	5	5	-
Assets at fair value through profit or loss	d	8,346	8,346	-
Members' loans	b,c,g	14,466,433	14,447,543	(18,890)
Other	a	16,760	16,760	-
		15,883,506	15,864,686	(18,820)
Financial Instrument Liabilities				
Members' deposits	b,c	13,037,568	13,053,443	(15,875)
Liabilities at fair value through profit or loss	d	8,870	8,870	-
Borrowings	a	250,000	250,000	-
Securitization liabilities	c	1,230,338	1,222,294	8,044
Payables and other financial liabilities	a	185,170	185,170	-
Allowance for off balance sheet credit instruments	g	6,826	6,826	-
		$ 14,718,772	$ 14,726,603	(7,831)

(Canadian $ thousands)

9. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

		As at October 31, 2018		
	Note	Carrying Value	Fair Value	Fair Value Difference
Financial Instrument Assets				
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	-
		15,697,798	15,586,337	(111,461)
Financial Instrument Liabilities				
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	-
		$ 14,596,842	$ 14,551,959	$ 44,883

(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 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, shares in other entities, and investment share liability 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.
(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.

(Canadian $ thousands)

9. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

As at July 31, 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative assets	**$ -**	**$ 8,077**	**$ -**	**$ 8,077**
Financial assets held at fair value	**$ -**	**$ 8,077**	**$ -**	**$ 8,077**
Member shares - Series E	**-**	**(419)**	**-**	**(419)**
Derivative liabilities	**-**	**(8,870)**	**-**	**(8,870)**
Financial liabilities held at fair value	**$ -**	**$ (9,289)**	**$ -**	**$ (9,289)**

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
Financial assets held at fair value	$ 174,079	$ 5,998	$ -	$ 180,077
Member shares - Series E	-	(427)	-	(427)
Derivative liabilities	-	(12,372)	-	(12,372)
Financial liabilities held at fair value	$ -	$ (12,799)	$ -	$ (12,799)

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)
Balance at October 31, 2018	$ -

(Canadian $ thousands)

10. AMALGAMATION

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 Ltd.. 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:

	Audited Book Value	FV Adjustments	Fair Value Recognized on Acquisition
Assets			
Cash and cash equivalents	$ 26,577	$ -	$ 26,577
Investments	9,427	-	9,427
Members' loans	15,557	124	15,681
Receivables	35	-	35
Prepaids	26	-	26
Property and equipment	1,104	371	1,475
	52,726	495	53,221
Liabilities			
Members' deposits	47,171	(161)	47,010
Trade payables and other liabilities	824	-	824
	47,995	(161)	47,834
Total Identifiable Net Assets	**$ 4,731**	**$ 656**	**$ 5,387**

During the quarter, Edson completed the external audit of their April 30, 2019 financial statements which resulted in a decrease of $1,312 total identifiable net assets and gain on amalgamation recorded by the Credit Union. Included in the $1,312 adjustment is $619 in trade payables and other liabilities unrecorded by Edson.

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 $3.8 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 $372 - $405 upon completion of the amalgamation process.

11. 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 9 months ended July 31, 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.