# SERVUS CREDIT UNION LTD.

## Interim Condensed Consolidated Financial Statements

## For the nine months ended

## July 31, 2020

## (unaudited)

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

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

| | Notes | | July 31 2020 | | October 31 2019 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | | $ | **160,738** | $ | 107,760 |
| Investments | 4 | | **1,869,887** | | 1,198,908 |
| Members' loans | 5 | | **14,742,343** | | 14,541,959 |
| Income taxes receivable | | | **-** | | 7,651 |
| Assets held for sale | | | **9,132** | | 12,811 |
| Other assets | | | **35,940** | | 31,600 |
| Property and equipment | 8 | | **135,518** | | 139,815 |
| Leased assets | 9 | | **53,629** | | - |
| Investment property | | | **3,927** | | 4,617 |
| Derivative financial assets | 10 | | **13,684** | | 8,239 |
| Investment in associate | | | **197,151** | | 193,795 |
| Intangible assets | | | **57,598** | | 60,430 |
| **Total assets** | | | **17,279,547** | | 16,307,585 |
| **Liabilities** | | | | | |
| Borrowings | | | **200,000** | | 200,000 |
| Securitization liabilities | | | **1,268,702** | | 1,144,015 |
| Members' deposits | | | **13,891,176** | | 13,131,397 |
| Trade payables and other liabilities | | | **185,748** | | 194,424 |
| Lease liabilities | | | **57,993** | | 639 |
| Income taxes payable | | | **5,066** | | 124 |
| Allowance for off balance sheet credit instruments | 5,6 | | **11,150** | | 6,064 |
| Derivative financial liabilities | 10 | | **4,984** | | 8,893 |
| Investment shares | | | **435** | | 418 |
| Defined benefit plans | | | **7,590** | | 7,555 |
| Deferred income tax liabilities | | | **9,836** | | 11,742 |
| **Total liabilities** | | | **15,642,680** | | 14,705,271 |
| **Equity** | | | | | |
| Share capital | | | **664,342** | | 681,848 |
| Retained earnings | | | **959,398** | | 909,369 |
| Accumulated other comprehensive income | | | **13,127** | | 11,097 |
| **Total equity** | | | **1,636,867** | | 1,602,314 |
| **Total liabilities and equity** | | $ | **17,279,547** | $ | 16,307,585 |

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 2020** | Three months ended July 31 2019 | **Nine months ended July 31 2020** | Nine months ended July 31 2019 |
|---|---|---|---|---|---|
| **Interest income** | | | | | |
| Members' loans | | **$ 134,189** | $ 149,014 | **$ 425,153** | $ 440,331 |
| Investments | | **3,204** | 5,415 | **23,365** | 21,922 |
| **Total interest income** | | **137,393** | 154,429 | **448,518** | 462,253 |
| **Interest expense** | | | | | |
| Members' deposits | | **33,949** | 47,007 | **122,361** | 136,686 |
| Other interest expense | | **7,993** | 8,371 | **23,898** | 26,139 |
| **Total interest expense** | | **41,942** | 55,378 | **146,259** | 162,825 |
| **Net interest income** | | **95,451** | 99,051 | **302,259** | 299,428 |
| Other income | | **26,858** | 33,529 | **87,442** | 91,789 |
| Share of profits from associate | | **2,041** | 1,778 | **5,629** | 6,017 |
| **Net interest income and other income** | | **124,350** | 134,358 | **395,330** | 397,234 |
| Provision for credit losses | 6 | **15,431** | 6,429 | **42,052** | 11,810 |
| **Net interest income after provision for credit losses** | | **108,919** | 127,929 | **353,278** | 385,424 |
| **Operating expenses** | | | | | |
| Personnel | | **52,031** | 47,526 | **156,456** | 148,847 |
| General | | **17,601** | 16,788 | **58,406** | 55,444 |
| Occupancy (1) | | **4,463** | 5,534 | **13,067** | 16,185 |
| Member security | | **2,430** | 3,590 | **7,122** | 10,710 |
| Depreciation (2) | | **4,343** | 2,955 | **13,135** | 9,109 |
| Organization | | **1,313** | 1,400 | **4,224** | 3,614 |
| Impairment of assets | | **148** | 142 | **670** | 388 |
| Amortization | | **2,767** | 2,636 | **8,327** | 7,778 |
| **Total operating expenses** | | **85,096** | 80,571 | **261,407** | 252,075 |
| **Income before patronage allocation to members and income taxes** | | **23,823** | 47,358 | **91,871** | 133,349 |
| Patronage allocation to members | | **8,451** | 8,453 | **25,243** | 25,291 |
| **Income before income taxes** | | **15,372** | 38,905 | **66,628** | 108,058 |
| Income taxes | | **4,167** | 7,249 | **16,599** | 25,955 |
| **Net income** | | **$ 11,205** | $ 31,656 | **$ 50,029** | $ 82,103 |

(1) *Lease interest expense is included in occupancy*

(2) *Leased asset depreciation is included in depreciation*

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 2020 | Three months ended July 31 2019 | Nine months ended July 31 2020 | Nine months ended July 31 2019 |
|---|---|---|---|---|---|
| **Net income** | | **$ 11,205** | $ 31,656 | **$ 50,029** | $ 82,103 |
| **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 (loss) income from associate* | | | | | |
| Actuarial (loss) gain on defined benefit pension plans [(3)] | | **-** | - | **(278)** | 92 |
| **Items that will not be reclassified to profit or loss:** | | | | | |
| *Share of other comprehensive income from associate* | | | | | |
| Unrealized gain and reclassification adjustments on fair value through other comprehensive income securities [(4)] | | **1,479** | 507 | **2,308** | 2,564 |
| **Total other comprehensive income** | | **$ 1,479** | $ 507 | **$ 2,030** | $ 4,298 |
| **Total comprehensive income** | | **$ 12,684** | $ 32,163 | **$ 52,059** | $ 86,401 |
| **Total comprehensive income** | | | | | |
| Comprehensive income attributable to members | | **12,684** | 32,160 | **52,059** | 86,371 |
| Comprehensive income attributable to non-controlling interest | | **-** | 3 | **-** | 30 |
| **Total comprehensive income** | | **$ 12,684** | $ 32,163 | **$ 52,059** | $ 86,401 |

*[(1)] Net of income tax expense for the nine months ended July 31st of $0, 2019 - $649*

*[(2)] Net of income tax expense transferred for the nine months ended July 31st of $0, 2019 - $42*

*[(3)] Net of income tax (recovery) expense for the nine months ended July 31st of $(83), 2019 - $34*

*[(4)] Net of income tax expense (recovery) for the three months ended July 31st of $442, 2019 - $(498), for the nine months ended July 31st of $689, 2019 - $263*

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 | 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 | | - | - | (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 |

| | Notes | **Common Shares** | **Investment Shares** | **Retained Earnings** | **Accumulated Other Comprehensive Income** | **Non-controlling Interest (1)** | **Total Equity** |
|---|---|---|---|---|---|---|---|
| **Balance at November 1, 2019** | | **$ 560,793** | **$ 121,055** | **$ 909,369** | **$ 11,097** | **$ -** | **1,602,314** |
| Changes in equity | | | | | | | |
| Issues of share capital | | **14,746** | **-** | **-** | **-** | **-** | **14,746** |
| Redemption of share capital | | **(27,395)** | **(4,857)** | **-** | **-** | **-** | **(32,252)** |
| Net income | | **-** | **-** | **50,029** | **-** | **-** | **50,029** |
| Share of other comprehensive income from associate | | **-** | **-** | **-** | **2,030** | **-** | **2,030** |
| **Balance at July 31, 2020** | | **$ 548,144** | **$ 116,198** | **$ 959,398** | **$ 13,127** | **$ -** | **$ 1,636,867** |

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 2020 | Nine months ended July 31 2019 |
|---|---|---|---|
| **Cash flows from (used in) operating activities** | | | |
| **Net income** | | **$ 50,029** | $ 82,103 |
| **Adjustments for non-cash items and others** | | | |
| Net interest income | | **(302,259)** | (299,428) |
| Provision for credit losses | | **42,052** | 11,810 |
| Share of profits from investment in associate | | **(5,629)** | (6,017) |
| Depreciation and amortization | | **21,462** | 16,887 |
| Impairment of assets | | **670** | 388 |
| Gain from amalgamations | | **-** | (3,815) |
| Loss on leased assets | | **33** | - |
| Loss (gain) on assets held for sale | | **110** | (41) |
| Loss (gain) on disposal of property and equipment | | **414** | (9) |
| Loss on disposal of intangible assets | | **140** | - |
| Income taxes | | **16,599** | 25,955 |
| **Adjustments for net changes in operating assets and liabilities** | | | |
| Change in members' loans | | **(200,907)** | (183,841) |
| Change in members' deposits | | **766,274** | 197,312 |
| Change in assets held for sale | | **(10,752)** | (16,997) |
| Change in derivatives | | **(9,354)** | (5,581) |
| Net change in other assets, provisions, and trade payables and other liabilities | | **(29,575)** | (19,989) |
| Income taxes paid, net | | **(5,912)** | (17,508) |
| Interest received | | **411,354** | 460,906 |
| Interest paid | | **(152,754)** | (148,725) |
| **Net cash from operating activities** | | **591,995** | 93,410 |
| **Cash flows from (used in) investing activities** | | | |
| Additions to intangible assets | | **(5,748)** | (4,083) |
| Additions to property and equipment, and investment property | | **(6,259)** | (5,535) |
| Proceeds on disposal of property and equipment, and investment property | | **308** | 367 |
| Proceeds on disposal of assets held for sale | | **15,106** | 13,735 |
| Purchase of Alberta Central shares | | **(963)** | (3,940) |
| Distributions from Alberta Central | | **5,872** | 5,160 |
| Investments | | **(670,258)** | (25,915) |
| **Net cash used in investing activities** | | **(661,942)** | (20,211) |
| **Cash flows from (used in) financing activities** | | | |
| Advances of securitization liabilities | | **462,673** | 201,211 |
| Repayment of securitization liabilities | | **(318,377)** | (288,609) |
| Repayment of principal portion of lease liabilities | | **(3,865)** | (168) |
| Shares issued | | **14,746** | 20,085 |
| Shares redeemed | | **(32,252)** | (32,655) |
| **Net cash from (used in) financing activities** | | **122,925** | (100,136) |
| **Increase (decrease) in cash and cash equivalents** | | **52,978** | (26,937) |
| Cash and cash equivalents, beginning of period | | **107,760** | 123,612 |
| **Cash and cash equivalents, end of period** | | **$ 160,738** | $ 96,675 |

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

## 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") 2019 audited annual consolidated financial statements.

These interim condensed consolidated financial statements were approved by the Audit and Finance Committee on September 24, 2020.

**Significant Accounting 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 best estimates undertaken in accordance with the applicable standards and are reviewed on a continuous basis. Estimates, assumptions and critical judgements have been used in the following areas: income taxes; deferred tax assets and liabilities; classification and valuation of financial instruments; impairment of non-financial and financial assets; expected credit losses; measurement of provisions; the useful lives of property, equipment, and intangible assets; whether an agreement includes a lease, consolidation of structured entities; credit card points liability; accounting for investment in associate; 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.

The global pandemic declared by the World Health Organization on March 11th, 2020 due to the outbreak of COVID-19 has cast uncertainty on the estimates, assumptions, and critical judgements exercised by management. The full extent of the impact of the pandemic, including government and /or regulatory responses, will have on the Canadian (specifically Albertan) economy is highly uncertain and difficult to predict at this time. In addition to the pandemic, extremely low oil prices, disputes among oil producing countries and completion of pipelines has added to the uncertainty that Alberta may still have a higher than normal unemployment rate once the pandemic has passed. The Credit Union has put in place relief measures for personal and business members who are having trouble meeting their financial obligations, including loan deferrals.

The main effects of the COVID-19 pandemic on the Credit Union's profit and loss and financial position as at July 31, 2020 are reduced margin due to lower interest rates and economic uncertainty requiring management to make significant judgements to estimate the allowance for expected credit losses, which increased compared to the previous quarter. Refer to Note 6 for more information.

## 2. ACCOUNTING POLICIES

In addition to the accounting policies disclosed in the Servus' 2019 annual consolidated financial statements, the following policies are required to be applied for the period ended July 31, 2020:

**Leases**

*The Credit Union as a Lessee*

Leases are arrangements containing identified assets that the lessee has the right to control, obtain substantially all economic benefit and the right to direct use of the asset.

The leased asset is equal to the value of the lease liability with adjustments for incentives received, initial direct costs, and an estimate of costs to restore the asset to the condition required by the contract. The lease liability is calculated as the present value of the lease payments taking into consideration all allowable adjustments, such as a penalty for termination or exercise price of a purchase option.

## 2. ACCOUNTING POLICIES (CONTINUED)

Subsequent to initial recognition, leased assets are depreciated on a straight-line basis over the shorter of the asset's estimated useful life and the lease term, in accordance with the accounting policy for property and equipment. Leased land is also depreciated over the lease term. Depreciation expense is recognized on the leased asset and interest expense on the lease liability is recorded in occupancy expenses.

The discount rate used in calculating the present value of the lease payment is either the interest rate implicit in the lease, if it is practicable to determine, or the incremental borrowing rate.

The classes of leases currently held by the Credit Union are: land, building, other equipment (signage and vehicles), and computer equipment.

The Credit Union typically exercises all extension options on leases. For this reason, the leased asset and liability include all extension options that are expected to be exercised in each individual lease. Due to the nature of business and the work required to set up a branch, contracts with an extension are preferable to maintain the same location and presence in the community long term. While this is the standard application on Credit Union lease options, a reassessment is required when there is a significant event or change.

*The Credit Union as a Lessor*

Leases in which the Credit Union does not transfer substantially all the risks and rewards of the asset are classified as operating lease. Rentals received under operating leases are recognized in other income on a straight-line-basis over the term of the lease. Lease incentives provided are recognized on a straight-line basis over the term of the lease.

## 3. CURRENT AND FUTURE ACCOUNTING CHANGES

### Adoption of Standards in the Current Year

### IFRS 16 Leases

On November 1, 2019 ("date of transition"), the Credit Union adopted IFRS 16 Leases (IFRS 16), which replaced the guidance from IAS 17 Leases. Adopting IFRS 16 has resulted in significant changes to accounting policies for the definition of a lease, recognition and calculation of a right-of-use-asset ("leased asset") and lease liability.

IFRS 16 does not require restatement of comparative period financial information. The Credit Union has elected to not restate comparative period financial information, as allowed by the selection of the modified retrospective approach for the transition. As part of the modified retrospective approach, the leased asset was made equal to the lease liability, with adjustments for accounts receivable related to tenant inducement and accounts payable related to accrued rent, which resulted in no adjustment to the retained earnings when IFRS 16 was adopted.

The Credit Union elected to not reassess current contracts for active leases prior to IFRS 16. If a contract was assessed as a lease prior to IFRS 16, it will remain a lease at transition to IFRS 16. IFRS 16 requirements will be applied to contracts that are entered into or changed after the transition date. Practical expedients the Credit Union adopted include relying on the previous assessments for onerous contracts at transition, using hindsight to determine lease terms, and excluding initial direct costs for leases that are active at transition. Finance costs will be recorded under occupancy expenses.

The weighted average incremental borrowing rate applied to lease liabilities on November 1, 2019 was 4.13%.

**(Canadian $ thousands)**

## 3 . CURRENT AND FUTURE ACCOUNTING CHANGES (CONTINUED)

The following table reconciles the Credit Union's operating lease commitments at October 31, 2019, to the lease liabilities recognized on the initial application of IFRS 16 at November 1, 2019.

| | | Total |
|---|---|---|
| Operating lease commitments disclosed as at October 31, 2019 | $ | 45,127 |
| Add: extension and termination options reasonably certain to be exercised | | 29,396 |
| Adjustment related to the effect of discounting cash flows as at November 1, 2019 (4.13%) | | (16,267) |
| Add: financing lease liabilities recognized as at October 31, 2019 | | 639 |
| Lease liabilities recognized as at November 1, 2019 | $ | 58,895 |

The table below reflects the impact of IFRS 16 on implementation at November 1, 2019 on the interim condensed consolidated statement of financial position.

| | | As at October 31, 2019 IAS 17 Amount | | Change | | As at November 1, 2019 IFRS 16 Amount |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Other assets (1) | $ | 31,600 | $ | 191 | $ | 31,791 |
| Leased assets | | - | | 54,736 | | 54,736 |
| **Total assets** | | 31,600 | | 54,927 | | 86,527 |
| **Liabilities** | | | | | | |
| Trade payables and other liabilities (2) | | 194,424 | | (3,329) | | 191,095 |
| Lease liabilities | | 639 | | 58,256 | | 58,895 |
| **Total liabilities** | | 195,063 | | 54,927 | | 249,990 |

*(1) Change related to tenant inducement*

*(2) Change related to accrued rent*

The following table reflects the impact of IFRS 16 on the interim condensed consolidated statement of income for the period ended July 31, 2020:

| | | Reporting under IAS 17 | | Increase/ (decrease) | | Reporting under IFRS 16 |
|---|---|---|---|---|---|---|
| Occupancy expense | $ | 5,683 | $ | (5,679) | $ | 4 |
| Depreciation expense - leased assets | | - | | 4,575 | | 4,575 |
| Lease interest expense | | - | | 1,817 | | 1,817 |
| Income taxes | | 1,392 | | 174 | | 1,566 |
| **Total impact** | $ | 7,075 | $ | 887 | $ | 7,962 |

In May 2020, the IASB issued COVID-19-Related Rent Concessions (Amendments to IFRS 16), which provide lessees with an exemption from assessing whether a COVID 19-related rent concession granted until June 2021 is a lease modification. Lessees that apply the exemption must disclose that fact and apply the exemption retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, but prior period figures are not required to be restated.

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.

## 3. CURRENT AND FUTURE ACCOUNTING CHANGES (CONTINUED)

### Future Accounting Changes

In addition to future accounting changes disclosed in the 2019 audited annual consolidated financial statements, the following amendments to existing accounting standards have been issued but are not yet effective on July 31, 2020. The Credit Union is currently assessing the impact of adopting the following standards.

### Effective for the Credit Union — January 1, 2021

Interest Rate Benchmark Interbank Offered Rate Reform Phase 2
In April 2020, the IASB published proposals for amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts, and IFRS 16 Leases. The amendments provide guidance to address issues that may affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. The proposed amendments relate to the modification of financial assets and financial liabilities, including lease liabilities, specific hedge accounting requirements, and disclosure requirements applying IFRS 7 to accompany the Board's proposals for classification and measurements and hedge accounting.

### Effective for the Credit Union — January 1, 2022

Annual Improvements to IFRS Standards 2018–2020
In May 2020, the IASB issued Annual Improvements to IFRS Standards 2018–2020, amending a number of standards as part of their annual improvements project. The amendment made to IFRS 9 Financial Instruments clarifies which fees are included when applying the "10% test" to assess whether a financial liability is derecognized. To enhance clarity of the treatment of lease incentives under IFRS 16 Leases, Illustrative Example 13 has been amended to remove the illustration of the reimbursements made by the lessor for leasehold improvements.

IAS 16 Property, Plant and Equipment
In May 2020, the IASB issued Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IAS 16). The amendment prohibits deducting from the cost of property, plant, and equipment any proceeds from selling items produced while readying the assets for use. Instead, the proceeds from selling such items, and the cost of producing those items, must be recognized in profit or loss.

IAS 37 Provisions, Contingent Liabilities and Contingent Assets
In May 2020, the IASB issued Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37). The amendment clarifies that the cost of fulfilling a contract is included for the purposes of determining whether a contract is onerous or not. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate of fulfilling the contract.

### Effective for the Credit Union — January 1, 2023

IAS 1 Presentation of Financial Statements
In July 2020, the IASB issued amendments to IAS 1 to defer the effective date of the January 2020 amendments from January 1, 2022 to January 1, 2023.

**(Canadian $ thousands)**

## 4. INVESTMENTS

| | | **As at July 31 2020** | | As at October 31 2019 |
|---|---|---|---|---|
| Term deposits with Alberta Central | **$** | **1,516,932** | $ | 1,191,203 |
| Term deposits with other financial institutions | | **350,000** | | 5,472 |
| Other | | **276** | | 275 |
| | | **1,867,208** | | 1,196,950 |
| Accrued interest | | **2,682** | | 1,960 |
| | | **1,869,890** | | 1,198,910 |
| ECL allowance on investments | | **(3)** | | (2) |
| **Total** | **$** | **1,869,887** | $ | 1,198,908 |

## 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 | | | |
|---|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **Allowance for Credit Losses** | **Total Net of Allowance** |
| **As at July 31, 2020** | | | | | | |
| Residential mortgages | **$ 7,720,563** | **$ 640,459** | **$ 26,043** | **$ 8,387,065** | **$ 7,649** | **$ 8,379,416** |
| Commercial and agriculture | **5,026,957** | **133,826** | **95,943** | **5,256,726** | **36,347** | **5,220,379** |
| Consumer loans and credit card | **1,047,624** | **108,831** | **5,753** | **1,162,208** | **19,660** | **1,142,548** |
| **Total members' loans** | **$ 13,795,144** | **$ 883,116** | **$ 127,739** | **$ 14,805,999** | **$ 63,656** | **$ 14,742,343** |
| | | | | | | |
| **As at July 31, 2020** | | | | | | |
| Residential mortgages | **$ 2,017,610** | **$ 15,851** | **$ 1,229** | **$ 2,034,690** | **$ 431** | **$ 2,034,259** |
| Commercial and agriculture | **1,108,359** | **6,668** | **753** | **1,115,780** | **1,395** | **1,114,385** |
| Consumer loans and credit card | **1,050,891** | **22,061** | **715** | **1,073,667** | **9,168** | **1,064,499** |
| Loan commitments and guarantees * | **49,482** | **-** | **-** | **49,482** | **156** | **49,326** |
| **Total off balance sheet credit instruments** | **$ 4,226,342** | **$ 44,580** | **$ 2,697** | **$ 4,273,619** | **$ 11,150** | **$ 4,262,469** |

*collectively assessed

| | Performing | | Impaired | | | |
|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Allowance for Credit Losses | Total Net of Allowance |
| As at October 31, 2019 | | | | | | |
| Residential mortgages | $ 7,591,041 | $ 702,643 | $ 15,829 | $ 8,309,513 | $ 4,927 | $ 8,304,586 |
| Commercial and agriculture | 4,826,939 | 110,927 | 84,117 | 5,021,983 | 18,860 | 5,003,123 |
| Consumer loans and credit card | 1,111,651 | 130,332 | 7,354 | 1,249,337 | 15,087 | 1,234,250 |
| Total members' loans | $ 13,529,631 | $ 943,902 | $ 107,300 | $ 14,580,833 | $ 38,874 | $ 14,541,959 |
| | | | | | | |
| As at October 31, 2019 | | | | | | |
| Residential mortgages | $ 1,428,179 | $ 16,165 | $ 1,153 | $ 1,445,497 | $ 180 | $ 1,445,317 |
| Commercial and agriculture | 1,038,165 | 5,740 | 249 | 1,044,154 | 683 | 1,043,471 |
| Consumer loans and credit card | 1,047,694 | 21,611 | 913 | 1,070,218 | 5,089 | 1,065,129 |
| Loan commitments and guarantees * | 46,463 | - | - | 46,463 | 112 | 46,351 |
| Total off balance sheet credit instruments | $ 3,560,501 | $ 43,516 | $ 2,315 | $ 3,606,332 | $ 6,064 | $ 3,600,268 |

*collectively assessed

## 6. ALLOWANCE FOR CREDIT LOSSES

**Key Data and Assumptions**
Estimating the allowance for credit losses is based on a set of assumptions and methodologies placed around credit risk and future looking macroeconomic indicators and therefore requires significant judgement. As discussed in Note 1 the COVID-19 pandemic has created global uncertainty. This event is unprecedented, and its length and resolution are unknown. In addition to the pandemic, a large decrease in oil prices along with oversupply from other oil producing countries had further negative impacts to Alberta's economy. Management has made more complex and subjective judgements to estimate the expected credit losses at July 31, 2020.

The main areas that this uncertainty affects is in the assessment of whether there is a significant increase in credit risk on deferred 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.

The Credit Union uses a model created by Central 1 (the model) to estimate the expected credit loss. Central 1 updates the FLIs used in the model to reflect the current economic situation by forecasting 20 quarters out. These estimates changed significantly from January 31, 2020 due to the pandemic. As this event is unprecedented, significant judgement was required to create these estimates.

The macroeconomic factors that affect the Credit Union ECL calculations are: Alberta unemployment rates, Alberta Housing Price Index and three-month Bank of Canada bond/Bankers' Acceptance rates. Each factor is forecast in a base case, a best case and a worst case scenario. These scenarios are weighted, and the weighted average is used to build the estimate for expected credit losses.

Management had to use judgement in several areas to assess if the estimate the model calculated was reasonable or if an overlay was needed, to increase or decrease the allowance. This is assessed each quarterly reporting period. The negative effects of the global economic shut down, increased unemployment and the crash of oil prices had to be weighed against the more positive aspects of government support programs, government loan programs, loan deferrals, and utility deferrals. In the prior quarter, management increased the allowance with a $4.2 million overlay on the commercial book. At July 31, 2020 this increased slightly to $4.3 million.

When there is a significant increase in credit risk, a member loan will move to a higher stage and a higher ECL will be calculated. Loans that have been deferred could be considered to have a significant increase in credit risk, however guidance provided by standard setters and regulators have indicated that receiving a deferral should not be the only reason a loan would move to the next stage. Management has followed this guidance and not considered the deferral of loans, by itself, to be an indication of significant increase in credit risk so there is no movement of stages. The majority of these deferrals will be ending in the fourth quarter.

The calculations around PD, FLIs, and weighting of scenarios are tied together. In the model, PD is adjusted through adjusting the FLI forecasts. At Q2, management ran several sensitivities on the FLIs and scenario weightings, including adjusting unemployment forecasts for Alberta to show higher unemployment percentages over the next few quarters and a much longer recovery period. The economic uncertainty created challenges for management to find consistent information to base the scenarios on. At July 31, 2020, the uncertainly and lack of consistent information still exist, as a result, management has continued to use the forecasts provided by Central 1's economists within the model as this is the best information available.

The weighting of the macroeconomic factors was also assessed. The typical weighting used in the model is 80% base, 10% best and 10% worst case (80/10/10) as the base case is forecasted as what the economists feel is the most likely scenario. The FLI forecasts updated in June 2020 show a longer, drawn out recovery. Management has assessed that Alberta is likely to have a much longer recovery period than the rest of Canada due to uncertainties around COVID-19 and unemployment related to oil price and therefore increased the weightings chosen for use in the model at April 30, 2020 to 45% base, 10% best and 45% worst case (45/10/45). The same weightings have been used for July 31, 2020. In the chart below, the 12 month and 5 year average forecasts show the impact of the current economy on the FLI since October 31, 2019 and the previous quarter.

**(Canadian $ thousands)**

## 6. ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

| | | 12 Month Average Forecast | | | 5 Year Average Forecast | | |
|---|---|---|---|---|---|---|---|
| | As at | Base Case | Best Case | Worst Case | Base Case | Best Case | Worst Case |
| 3 Month GOC Bond Rate* | | | | | | | |
| | October 31, 2019 | 1.40 | 2.06 | 0.44 | 1.58 | 3.38 | 0.58 |
| | April 30, 2020 | 0.49 | 0.66 | 0.48 | 1.21 | 1.88 | 0.45 |
| | **July 31, 2020** | **0.25** | **0.25** | **0.25** | **0.61** | **0.80** | **0.31** |
| 3 Month BA Rate** | | | | | | | |
| | October 31, 2019 | 1.67 | 2.33 | 0.72 | 1.85 | 3.63 | 0.86 |
| | April 30, 2020 | 0.82 | 1.00 | 0.80 | 1.53 | 2.19 | 0.73 |
| | **July 31, 2020** | **0.62** | **0.55** | **0.70** | **1.05** | **1.14** | **0.78** |
| Unemployment Rate | | | | | | | |
| | October 31, 2019 | 6.90 | 4.70 | 8.94 | 6.20 | 3.96 | 8.40 |
| | April 30, 2020 | 13.13 | 12.33 | 14.63 | 7.90 | 6.86 | 9.85 |
| | **July 31, 2020** | **11.98** | **9.93** | **13.32** | **7.87** | **5.73** | **9.49** |
| Housing Price Index (HPI) | | | | | | | |
| | October 31, 2019 | 189.48 | 192.74 | 178.88 | 196.02 | 205.57 | 177.40 |
| | April 30, 2020 | 175.60 | 183.00 | 168.07 | 173.84 | 192.48 | 163.22 |
| | **July 31, 2020** | **178.69** | **192.64** | **170.15** | **180.67** | **209.06** | **165.82** |

*GOC - Government of Canada
**BA - Bankers' Acceptance

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, 2019** | **$ 5,107** | **$ 19,543** | **$ 20,176** | **$ 112** | **$ 44,938** |
| Recoveries of previous loan write-offs | **-** | **259** | **3,659** | **-** | **3,918** |
| Provision charged to net income | **4,948** | **19,788** | **17,271** | **44** | **42,051** |
| | **10,055** | **39,590** | **41,106** | **156** | **90,907** |
| Loans written off | **(1,975)** | **(1,848)** | **(12,278)** | **-** | **(16,101)** |
| **As at July 31, 2020** | **$ 8,080** | **$ 37,742** | **$ 28,828** | **$ 156** | **$ 74,806** |
| **Presented on Interim Condensed Consolidated Statement of Financial Position as:** | | | | | |
| Netted with members' loans | **7,649** | **36,347** | **19,660** | **-** | **63,656** |
| Off balance sheet credit instruments (2) | **431** | **1,395** | **9,168** | **156** | **11,150** |
| **Total** | **$ 8,080** | **$ 37,742** | **$ 28,828** | **$ 156** | **$ 74,806** |

| | Residential Mortgages | Commercial and Agriculture | Consumer and Credit Card | Collectively Assessed (1) | Total |
|---|---|---|---|---|---|
| As at November 1, 2018 | $ 3,407 | $ 22,526 | $ 23,841 | $ 140 | $ 49,914 |
| Edson Credit Union amalgamation adjustment | - | - | 10 | - | 10 |
| Recoveries of previous loan write-offs | 1 | 224 | 5,706 | - | 5,931 |
| Provision charged to net income | 4,480 | 2,660 | 12,705 | (28) | 19,817 |
| | 7,888 | 25,410 | 42,262 | 112 | 75,672 |
| Loans written off | (2,781) | (5,867) | (22,086) | - | (30,734) |
| As at October 31, 2019 | $ 5,107 | $ 19,543 | $ 20,176 | $ 112 | $ 44,938 |
| Presented on Interim Condensed Consolidated Statement of Financial Position as: | | | | | |
| Netted with members' loans | 4,927 | 18,860 | 15,087 | - | 38,874 |
| Off balance sheet credit instruments (2) | 180 | 683 | 5,089 | 112 | 6,064 |
| Total | $ 5,107 | $ 19,543 | $ 20,176 | $ 112 | $ 44,938 |

(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, 2020 is:

| | | |
|---|---|---|
| Loans | $ | 42,051 |
| Investments | | 1 |
| **Provision for credit losses** | **$** | **42,052** |

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

**Residential Mortgages**

| | | Performing | | | | Impaired | | |
|---|---|---|---|---|---|---|---|---|
| | | **Stage 1** | | **Stage 2** | | **Stage 3** | | **Total** |
| **As at November 1, 2019** | **$** | **1,547** | **$** | **2,679** | **$** | **881** | **$** | **5,107** |
| Transfers | | | | | | | | |
| Stage 1 [(1)] | | **278** | | **(276)** | | **(2)** | | **-** |
| Stage 2 [(1)] | | **(1,152)** | | **1,267** | | **(115)** | | **-** |
| Stage 3 [(1)] | | **(630)** | | **(1,025)** | | **1,655** | | **-** |
| New originations [(2)] | | **338** | | **574** | | **-** | | **912** |
| Repayments [(3)] | | **(147)** | | **(241)** | | **(222)** | | **(610)** |
| Remeasurements [(4)] | | **2,187** | | **956** | | **1,503** | | **4,646** |
| Loans written off | | **-** | | **-** | | **(1,975)** | | **(1,975)** |
| **As at July 31, 2020** | **$** | **2,421** | **$** | **3,934** | **$** | **1,725** | **$** | **8,080** |
| **Presented on Interim Condensed Consolidated Statement of Financial Position as:** | | | | | | | | |
| Members' loans | | **2,095** | | **3,837** | | **1,717** | | **7,649** |
| Off balance sheet credit instruments | | **326** | | **97** | | **8** | | **431** |
| **Total** | **$** | **2,421** | **$** | **3,934** | **$** | **1,725** | **$** | **8,080** |

| | | Performing | | | | Impaired | | |
|---|---|---|---|---|---|---|---|---|
| | | Stage 1 | | Stage 2 | | Stage 3 | | Total |
| As at November 1, 2018 | $ | 1,025 | $ | 1,927 | $ | 455 | $ | 3,407 |
| Transfers | | | | | | | | |
| Stage 1 [(1)] | | 268 | | (264) | | (4) | | - |
| Stage 2 [(1)] | | (1,571) | | 1,691 | | (120) | | - |
| Stage 3 [(1)] | | (203) | | (948) | | 1,151 | | - |
| New originations [(2)] | | 265 | | 486 | | - | | 751 |
| Repayments [(3)] | | (533) | | (1,383) | | (1,723) | | (3,639) |
| Remeasurements [(4)] | | 2,296 | | 1,170 | | 3,902 | | 7,368 |
| Loans written off | | - | | - | | (2,781) | | (2,781) |
| Recoveries | | - | | - | | 1 | | 1 |
| As at October 31, 2019 | $ | 1,547 | $ | 2,679 | $ | 881 | $ | 5,107 |
| Presented on Interim Condensed Consolidated Statement of Financial Position as: | | | | | | | | |
| Members' loans | | 1,428 | | 2,622 | | 877 | | 4,927 |
| Off balance sheet credit instruments | | 119 | | 57 | | 4 | | 180 |
| Total | $ | 1,547 | $ | 2,679 | $ | 881 | $ | 5,107 |

[(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 and model parameters*

(Canadian $ thousands)

## 6. ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

### Commercial and Agriculture

| | Performing | | Impaired | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| **As at November 1, 2019** | **$ 3,226** | **$ 1,321** | **$ 14,996** | **$ 19,543** |
| Transfers | | | | |
| Stage 1 (1) | **244** | **(129)** | **(115)** | **-** |
| Stage 2 (1) | **(1,241)** | **2,620** | **(1,379)** | **-** |
| Stage 3 (1) | **(12,108)** | **(2,195)** | **14,303** | **-** |
| New originations (2) | **1,239** | **48** | **116** | **1,403** |
| Repayments (3) | **(322)** | **(1,314)** | **(480)** | **(2,116)** |
| Remeasurements (4) | **16,375** | **7,204** | **(3,078)** | **20,501** |
| Loans written off | **-** | **-** | **(1,848)** | **(1,848)** |
| Recoveries | **-** | **-** | **259** | **259** |
| **As at July 31, 2020** | **$ 7,413** | **$ 7,555** | **$ 22,774** | **$ 37,742** |
| **Presented on Interim Condensed Consolidated Statement of Financial Position as:** | | | | |
| Members' loans | **6,191** | **7,530** | **22,626** | **36,347** |
| Off balance sheet credit instruments | **1,222** | **25** | **148** | **1,395** |
| **Total** | **$ 7,413** | **$ 7,555** | **$ 22,774** | **$ 37,742** |

| | 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) | 99 | (94) | (5) | - |
| Stage 2 (1) | (489) | 1,529 | (1,040) | - |
| Stage 3 (1) | (6,752) | (4,809) | 11,561 | - |
| New originations (2) | 958 | 18 | 93 | 1,069 |
| Repayments (3) | (985) | (372) | (7,244) | (8,601) |
| Remeasurements (4) | 7,584 | 4,484 | (1,876) | 10,192 |
| Loans written off | - | - | (5,867) | (5,867) |
| Recoveries | - | - | 224 | 224 |
| As at October 31, 2019 | $ 3,226 | $ 1,321 | $ 14,996 | $ 19,543 |
| Presented on Interim Condensed Consolidated Statement of Financial Position as: | | | | |
| Members' loans | 2,668 | 1,300 | 14,892 | 18,860 |
| Off balance sheet credit instruments | 558 | 21 | 104 | 683 |
| Total | $ 3,226 | $ 1,321 | $ 14,996 | $ 19,543 |

(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 and model parameters*

**(Canadian $ thousands)**

## 6. ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

### Consumer and Credit Card

| | Performing | | Impaired | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| **As at November 1, 2019** | **$ 7,162** | **$ 9,433** | **$ 3,581** | **$ 20,176** |
| Transfers | | | | |
| Stage 1 [(1)] | **752** | **(710)** | **(42)** | **-** |
| Stage 2 [(1)] | **(3,595)** | **4,103** | **(508)** | **-** |
| Stage 3 [(1)] | **(1,713)** | **(4,586)** | **6,299** | **-** |
| New originations [(2)] | **2,379** | **733** | **-** | **3,112** |
| Repayments [(3)] | **(525)** | **(480)** | **(1,920)** | **(2,925)** |
| Remeasurements [(4)] | **9,088** | **3,991** | **4,005** | **17,084** |
| Loans written off | **-** | **-** | **(12,278)** | **(12,278)** |
| Recoveries | **-** | **-** | **3,659** | **3,659** |
| **As at July 31, 2020** | **$ 13,548** | **$ 12,484** | **$ 2,796** | **$ 28,828** |
| **Presented on Interim Condensed Consolidated Statement of Financial Position as:** | | | | |
| Members' loans | **6,960** | **9,945** | **2,755** | **19,660** |
| Off balance sheet credit instruments | **6,588** | **2,539** | **41** | **9,168** |
| **Total** | **$ 13,548** | **$ 12,484** | **$ 2,796** | **$ 28,828** |

| | Performing | | Impaired | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| As at November 1, 2018 | $ 7,316 | $ 10,701 | $ 5,824 | $ 23,841 |
| Edson CU opening adjustment | 10 | - | - | 10 |
| Transfers | | | | |
| Stage 1 [(1)] | 1,091 | (1,068) | (23) | - |
| Stage 2 [(1)] | (7,539) | 8,310 | (771) | - |
| Stage 3 [(1)] | (1,456) | (9,847) | 11,303 | - |
| New originations [(2)] | 3,136 | 627 | 14 | 3,777 |
| Repayments [(3)] | (7,083) | (9,255) | (11,554) | (27,892) |
| Remeasurements [(4)] | 11,687 | 9,965 | 15,168 | 36,820 |
| Loans written off | - | - | (22,086) | (22,086) |
| Recoveries | - | - | 5,706 | 5,706 |
| As at October 31, 2019 | $ 7,162 | $ 9,433 | $ 3,581 | $ 20,176 |
| Presented on Interim Condensed Consolidated Statement of Financial Position as: | | | | |
| Members' loans | 3,825 | 7,786 | 3,476 | 15,087 |
| Off balance sheet credit instruments | 3,337 | 1,647 | 105 | 5,089 |
| Total | $ 7,162 | $ 9,433 | $ 3,581 | $ 20,176 |

[(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 and model parameters*

**(Canadian $ thousands)**

## 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, 2020** | **Residential Mortgages** | **Commercial and Agriculture** | **Consumer and Credit Card** | **Total** |
|---|---|---|---|---|
| **Risk Categories** | | | | |
| Very low risk | **$ 3,015,335** | **$ 28,827** | **$ 292,739** | **$ 3,336,901** |
| Low risk | **3,528,443** | **2,209,536** | **428,621** | **6,166,600** |
| Medium risk | **1,180,215** | **2,823,750** | **211,890** | **4,215,855** |
| High risk | **637,029** | **98,670** | **223,205** | **958,904** |
| Impaired | **26,043** | **95,943** | **5,753** | **127,739** |
| **Total members' loans** | **$ 8,387,065** | **$ 5,256,726** | **$ 1,162,208** | **$ 14,805,999** |

| As at October 31, 2019 | Residential Mortgages | Commercial and Agriculture | Consumer and Credit Card | Total |
|---|---|---|---|---|
| Risk Categories | | | | |
| Very low risk | $ 2,829,934 | $ 8,860 | $ 301,905 | $ 3,140,699 |
| Low risk | 3,550,181 | 2,337,708 | 472,250 | 6,360,139 |
| Medium risk | 1,263,650 | 2,536,718 | 232,263 | 4,032,631 |
| High risk | 649,919 | 54,580 | 235,565 | 940,064 |
| Impaired | 15,829 | 84,117 | 7,354 | 107,300 |
| Total members' loans | $ 8,309,513 | $ 5,021,983 | $ 1,249,337 | $ 14,580,833 |

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

| **As at July 31, 2020** | **Residential Mortgages** | **Commercial and Agriculture** | **Consumer and Credit Card** | **Loan Commitments and Guarantees** | **Total** |
|---|---|---|---|---|---|
| **Risk Categories** | | | | | |
| Very low risk | **$ 1,002,373** | **$ 110,938** | **$ 580,540** | **$ -** | **$ 1,693,851** |
| Low risk | **972,773** | **793,389** | **312,258** | **49,482** | **2,127,902** |
| Medium risk | **49,538** | **210,079** | **71,561** | **-** | **331,178** |
| High risk | **8,777** | **621** | **108,593** | **-** | **117,991** |
| Impaired | **1,229** | **753** | **715** | **-** | **2,697** |
| **Total off balance sheet credit instruments** | **$ 2,034,690** | **$ 1,115,780** | **$ 1,073,667** | **$ 49,482** | **$ 4,273,619** |

| As at October 31, 2019 | Residential Mortgages | Commercial and Agriculture | Consumer and Credit Card | Loan Commitments and Guarantees | Total |
|---|---|---|---|---|---|
| Risk Categories | | | | | |
| Very low risk | $ 955,388 | $ 40,586 | $ 567,487 | $ - | $ 1,563,461 |
| Low risk | 432,752 | 857,156 | 332,329 | 46,463 | 1,668,700 |
| Medium risk | 48,302 | 145,188 | 69,619 | - | 263,109 |
| High risk | 7,902 | 975 | 99,870 | - | 108,747 |
| Impaired | 1,153 | 249 | 913 | - | 2,315 |
| Total off balance sheet credit instruments | $ 1,445,497 | $ 1,044,154 | $ 1,070,218 | $ 46,463 | $ 3,606,332 |

**(Canadian $ thousands)**

## 7. CREDIT QUALITY OF MEMBERS' LOANS (CONTINUED)

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

| Risk Assessment | Residential Mortgage Beacon Score Range | Consumer & Credit Card Beacon 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 July 31, 2020** | **Up to 30 Days** | **31 - 59 Days** | **60 to 89 Days** | **over 90 Days** | **Total** |
|---|---|---|---|---|---|
| **Stage 1** | | | | | |
| Residential mortgages | **$ 68,649** | **$ -** | **$ -** | **$ -** | **$ 68,649** |
| Commercial and agriculture | **19,560** | **-** | **-** | **-** | **19,560** |
| Consumer and credit card | **15,838** | **-** | **-** | **-** | **15,838** |
| **Stage 2** | | | | | |
| Residential mortgages | **9,616** | **17,357** | **7,032** | **12,626** | **46,631** |
| Commercial and agriculture | **290** | **18,320** | **6,427** | **45,577** | **70,614** |
| Consumer and credit card | **5,018** | **5,665** | **2,201** | **484** | **13,368** |
| **Stage3** | | | | | |
| Residential mortgages | **-** | **-** | **-** | **25,843** | **25,843** |
| Commercial and agriculture | **52** | **165** | **23** | **39,640** | **39,880** |
| Consumer and credit card | **-** | **-** | **-** | **5,674** | **5,674** |
| **Total** | **$ 119,023** | **$ 41,507** | **$ 15,683** | **$ 129,844** | **$ 306,057** |

| Loans Past Due, as at October 31, 2019 | Up to 30 Days | 31 - 59 Days | 60 to 89 Days | over 90 Days | Total |
|---|---|---|---|---|---|
| Stage 1 | | | | | |
| Residential mortgages | $ 79,391 | $ - | $ - | $ - | $ 79,391 |
| Commercial and agriculture | 45,263 | - | - | - | 45,263 |
| Consumer and credit card | 19,001 | - | - | - | 19,001 |
| Stage 2 | | | | | |
| Residential mortgages | 38,037 | 39,277 | 12,909 | 12,428 | 102,651 |
| Commercial and agriculture | 360 | 46,956 | 1,357 | 10,299 | 58,972 |
| Consumer and credit card | 10,768 | 11,586 | 4,313 | 440 | 27,107 |
| Stage3 | | | | | |
| Residential mortgages | - | - | - | 15,640 | 15,640 |
| Commercial and agriculture | 248 | 1,887 | 5,577 | 48,470 | 56,182 |
| Consumer and credit card | - | - | - | 7,209 | 7,209 |
| Total | $ 193,068 | $ 99,706 | $ 24,156 | $ 94,486 | $ 411,416 |

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.

**(Canadian $ thousands)**

## 7. CREDIT QUALITY OF MEMBERS' LOANS (CONTINUED)

| Loans by Security | | As at July 31 2020 | | As at October 31 2019 |
|---|---|---|---|---|
| Insured loans and mortgages | **$** | **2,981,083** | $ | 2,858,878 |
| Secured by mortgage | | **10,310,286** | | 10,039,077 |
| Secured by other | | **984,619** | | 1,135,922 |
| Unsecured loans | | **318,679** | | 311,585 |
| Unsecured mastercard | | **211,332** | | 235,371 |
| **Total** | **$** | **14,805,999** | $ | 14,580,833 |

## 8. PROPERTY AND EQUIPMENT

| | Land | Buildings | Leasehold Improvement | Furniture, Office Equipment and Vehicles | Computer Equipment | Leased Equipment | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| Balance as at October 31, 2018 | $ 26,879 | $ 157,563 | $ 41,511 | $ 29,508 | $ 19,978 | $ 896 | $ 276,335 |
| Amalgamation additions | 347 | 1,749 | - | 275 | 51 | - | 2,422 |
| Additions | - | 2,256 | 609 | 3,171 | 3,806 | (43) | 9,799 |
| Disposals | (2) | (701) | (635) | (2,783) | (1,611) | - | (5,732) |
| Transfer to assets held for sale | (381) | (3,424) | - | (43) | - | - | (3,848) |
| Transfer to investment property | - | (141) | - | - | - | - | (141) |
| Other transfers | - | - | - | 110 | (141) | - | (31) |
| Balance as at October 31, 2019 | $ 26,843 | $ 157,302 | $ 41,485 | $ 30,238 | $ 22,083 | $ 853 | $ 278,804 |
| Additions | - | 1,522 | 991 | 1,692 | 2,054 | - | 6,259 |
| Impairment Losses | - | (3) | - | - | - | - | (3) |
| Disposals | - | (235) | (2,015) | (2,216) | (935) | - | (5,401) |
| Transfer to assets held for sale | (489) | (1,278) | - | - | - | - | (1,767) |
| Transfer to investment property | - | (34) | - | - | - | - | (34) |
| Transfer to leased assets | - | - | - | - | - | (853) | (853) |
| **Balance as at July 31, 2020** | **$ 26,354** | **$ 157,274** | **$ 40,461** | **$ 29,714** | **$ 23,202** | **$ -** | **$ 277,005** |
| | | | | | | | |
| **Accumulated Depreciation** | | | | | | | |
| Balance as at October 31, 2018 | $ - | $ 67,830 | $ 28,807 | $ 22,156 | $ 14,587 | $ 19 | $ 133,399 |
| Amalgamation additions | - | 696 | - | 243 | 8 | - | 947 |
| Depreciation | - | 4,901 | 1,960 | 2,251 | 2,399 | 212 | 11,723 |
| Disposals | - | (518) | (635) | (2,624) | (1,549) | - | (5,326) |
| Transfer to assets held for sale | - | (1,731) | - | (40) | - | - | (1,771) |
| Transfer from investment property | - | 48 | - | - | - | - | 48 |
| Other transfers | - | - | - | 90 | (121) | - | (31) |
| Balance as at October 31, 2019 | $ - | $ 71,226 | $ 30,132 | $ 22,076 | $ 15,324 | $ 231 | $ 138,989 |
| Depreciation | - | 3,515 | 1,396 | 1,702 | 1,725 | - | 8,338 |
| Disposals | - | (192) | (1,965) | (2,183) | (841) | - | (5,181) |
| Transfer to assets held for sale | - | (428) | - | - | - | - | (428) |
| Transfer to leased assets | - | - | - | - | - | (231) | (231) |
| **Balance as at July 31, 2020** | **$ -** | **$ 74,121** | **$ 29,563** | **$ 21,595** | **$ 16,208** | **$ -** | **$ 141,487** |
| | | | | | | | |
| **Net Book Value** | | | | | | | |
| At October 31, 2019 | 26,843 | 86,076 | 11,353 | 8,162 | 6,759 | 622 | 139,815 |
| **At July 31, 2020** | **26,354** | **83,153** | **10,898** | **8,119** | **6,994** | **-** | **135,518** |

**(Canadian $ thousands)**

## 9. LEASED ASSETS

| | Land | Buildings | Other Equipment | Computer Equipment | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance as at October 31, 2019 | $ - | $ - | $ - | $ - | $ - |
| Transition adjustment [(1)] Note 3 | 2,871 | 51,373 | 492 | - | 54,736 |
| **Balance as at November 1, 2019** | **$ 2,871** | **$ 51,373** | **$ 492** | **$ -** | **$ 54,736** |
| Additions | 6 | 5,051 | 43 | - | 5,100 |
| Transfer from property and equipment | - | - | - | 853 | 853 |
| Disposals | - | (2,297) | (15) | - | (2,312) |
| **Balance as at July 31, 2020** | **$ 2,877** | **$ 54,127** | **$ 520** | **$ 853** | **$ 58,377** |
| | | | | | |
| **Accumulated Depreciation** | | | | | |
| Balance as at October 31, 2019 | $ - | $ - | $ - | $ - | $ - |
| Depreciation | 107 | 4,258 | 50 | 160 | 4,575 |
| Transfer from property and equipment | - | - | - | 231 | 231 |
| Disposals | - | (57) | (1) | - | (58) |
| **Balance as at July 31, 2020** | **$ 107** | **$ 4,201** | **$ 49** | **$ 391** | **$ 4,748** |

*[(1)] Change in initial transition adjustment between building and other equipment is related to the reclassification of signage.*

| | Land | Buildings | Other Equipment | Computer Equipment | Total |
|---|---|---|---|---|---|
| **Net Book Value** | | | | | |
| **At July 31, 2020** | **2,770** | **49,926** | **471** | **462** | **53,629** |

On November 1, 2019, the date of transition for IFRS 16, the Credit Union had non-cash additions to leased assets of $54,736. For the nine months ended July 31, 2020, the Credit Union had non-cash additions to leased assets of $5,100 and lease liabilities of $5,185.

The Credit Union does not currently have income from subleasing leased assets.

**(Canadian $ thousands)**

## 10. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

| **As at July 31, 2020** | **Equity-linked Options** | **Interest Rate Swaps** | **Total** |
|---|---|---|---|
| **Derivative Financial Assets** | | | |
| Gross financial assets before offsetting | **$ -** | **$ 13,519** | **$ 13,519** |
| Gross financial liabilities before offsetting | **-** | **(4,916)** | **(4,916)** |
| Net derivative financial assets presented in the statement of financial position | **-** | **8,603** | **8,603** |
| Amounts not subject to enforceable netting arrangements | **5,081** | **-** | **5,081** |
| **Total** | **$ 5,081** | **$ 8,603** | **$ 13,684** |
| **Derivative Financial Liabilities amounts not subject to enforcable netting arangements** | **$ 4,984** | **$ -** | **$ 4,984** |

| As at October 31, 2019 | Equity-linked Options | Interest Rate Swaps | Total |
|---|---|---|---|
| Derivative Financial Assets | | | |
| Gross financial assets before offsetting | $ - | $ 17,722 | $ 17,722 |
| Gross financial liabilities before offsetting | - | (16,701) | (16,701) |
| Net derivative financial assets presented in the statement of financial position | - | 1,021 | 1,021 |
| Amounts not subject to enforceable netting arrangements | 7,218 | - | 7,218 |
| Total | $ 7,218 | $ 1,021 | $ 8,239 |
| Derivative Financial Liabilities | | | |
| Gross financial assets before offsetting | $ - | $ (10,091) | $ (10,091) |
| Gross financial liabilities before offsetting | - | 11,881 | 11,881 |
| Net derivative financial liabilities presented in the statement of financial position | - | 1,790 | 1,790 |
| Amounts not subject to enforceable netting arrangements | 7,103 | - | 7,103 |
| Total | $ 7,103 | $ 1,790 | $ 8,893 |

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 2020** | As at October 31 2019 |
|---|---|---|---|---|---|
| Interest rate swaps | | | | | |
| receive fixed, pay floating | **$ -** | **$ 1,000,000** | **$ -** | **$ 1,000,000** | $ 2,000,000 |
| Equity-linked options | **-** | **28,500** | **17,525** | **46,025** | 76,405 |
| **Total** | **$ -** | **$ 1,028,500** | **$ 17,525** | **$ 1,046,025** | $ 2,076,405 |

(Canadian $ thousands)

## 10. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

**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.

## 11. 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, 2020 | Note | Carrying Value | Fair Value | Fair Value Difference |
|---|---|---|---|---|
| **Financial Instrument Assets** | | | | |
| Cash and cash equivalents | a | $ 160,738 | $ 160,738 | $ - |
| Interest bearing deposits with financial institutions | c,f | 1,869,611 | 1,870,295 | 684 |
| Assets at amortized cost | e | 6 | 6 | - |
| Assets at fair value through profit or loss | d | 13,955 | 13,955 | - |
| Members' loans | b,c,f | 14,742,343 | 14,876,692 | 134,349 |
| Other | a | 12,909 | 12,909 | - |
| **Total financial instrument assets** | | 16,799,562 | 16,934,595 | 135,033 |
| **Financial Instrument Liabilities** | | | | |
| Members' deposits | b,c | 13,891,176 | 13,937,230 | (46,054) |
| Liabilities at fair value through profit or loss | d | 4,984 | 4,984 | - |
| Borrowings | a | 200,000 | 200,000 | - |
| Securitization liabilities | c | 1,268,702 | 1,311,469 | (42,767) |
| Payables and other financial liabilities | a | 185,930 | 185,930 | - |
| **Total financial instrument liabilities** | | $ 15,550,792 | $ 15,639,613 | $ (88,821) |

**(Canadian $ thousands)**

## 11. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

| As at October 31, 2019 | Note | Carrying Value | Fair Value | Fair Value Difference |
|---|---|---|---|---|
| *Financial Instrument Assets* | | | | |
| Cash and cash equivalents | a | $ 107,760 | $ 107,760 | $ - |
| Interest bearing deposits with financial institutions | c,f | 1,198,634 | 1,198,748 | 114 |
| Assets at amortized cost | e | 5 | 5 | - |
| Assets at fair value through profit or loss | d | 8,508 | 8,508 | - |
| Members' loans | b,c,f | 14,541,959 | 14,570,135 | 28,176 |
| Other | a | 11,076 | 11,076 | - |
| Total financial instrument assets | | 15,867,942 | 15,896,232 | 28,290 |
| | | | | |
| *Financial Instrument Liabilities* | | | | |
| Members' deposits | b,c | 13,131,397 | 13,144,699 | (13,302) |
| Liabilities at fair value through profit or loss | d | 8,893 | 8,893 | - |
| Borrowings | a | 200,000 | 200,000 | - |
| Securitization liabilities | c | 1,144,015 | 1,154,624 | (10,609) |
| Payables and other financial liabilities | a | 194,527 | 194,527 | - |
| Total financial instrument liabilities | | $ 14,678,832 | $ 14,702,743 | $ (23,911) |

(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 are calculated based on valuation techniques using inputs reflecting market conditions at a specific point in time and may not be reflective of future fair values.
(e) The fair values of assets at amortized cost are assumed to equal their book values since a fair value adjustment cannot be supported because there is no available market to purchase the assets.
(f) Allowances use forward-looking information in the calculation of expected credit losses.

**(Canadian $ thousands)**

## 11. 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, 2020** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Derivative assets | **$ -** | **$ 13,684** | **$ -** | **$ 13,684** |
| Investment shares in entities | **-** | **-** | **43** | **43** |
| Shares in Concentra Trust | **-** | **-** | **227** | **227** |
| **Financial assets held at fair value** | **$ -** | **$ 13,684** | **$ 270** | **$ 13,954** |
| | | | | |
| Member shares - Series E | **-** | **(435)** | **-** | **(435)** |
| Derivative liabilities | **-** | **(4,984)** | **-** | **(4,984)** |
| **Financial liabilities held at fair value** | **$ -** | **$ (5,419)** | **$ -** | **$ (5,419)** |

| Fair value measurements using Level 3 inputs | |
|---|---|
| Balance at October 31, 2019 | $ 269 |
| Purchases | 1 |
| **Balance at July 31, 2020** | **$ 270** |

| As at October 31, 2019 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Derivative assets | $ - | $ 8,239 | $ - | $ 8,239 |
| Investment shares in entities | - | - | 42 | 42 |
| Shares in Concentra Trust | - | - | 227 | 227 |
| Financial assets held at fair value | $ - | $ 8,239 | $ 269 | $ 8,508 |
| | | | | |
| Member shares - Series E | - | (418) | - | (418) |
| Derivative liabilities | - | (8,893) | - | (8,893) |
| Financial liabilities held at fair value | $ - | $ (9,311) | $ - | $ (9,311) |

| Fair value measurements using Level 3 inputs | |
|---|---|
| Balance at October 31, 2018 | $ - |
| Remeasurement due to accounting policy change | 301 |
| Balance as at November 1, 2018 | 301 |
| Fair value through profit and (loss) | (39) |
| Purchases | 11 |
| Sales | (4) |
| Balance at October 31, 2019 | $ 269 |

## 12. COMPARATIVE FIGURES

As a result of the adoption of IFRS 16 Leases, lease liabilities classification on the interim condensed consolidated statement of financial position has been reclassified from trade payables and other liabilities to lease liabilities.

A presentation adjustment on the allowance for loan losses reconciliation tables in Note 6 resulted in a reclassification between repayments and remeasurements in each category. A presentation adjustment has also been made to Note 5 moving loans commitments and guarantees balances from Stage 2 to Stage 1 and from medium to low risk in Note 7.

Derivatives classification on the Interim Condensed Consolidated Statement of Cash Flows has been reclassified from investing activities to operating activities due to the nature of the underlying derivatives.

An adjustment has been made to the October 31, 2019 table in Note 5 Member Loans and in Note 7 Credit Quality of Members' Loans. In both notes, the commercial and agriculture amount of off balance sheet principal has been reduced by $46,463. There are no other statements or tables affected by this adjustment.