SERVUS CREDIT UNION LTD.

Interim Condensed Consolidated Financial Statements

For the three months ended

January 31, 2019

(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	**January 31 2019**	October 31 2018
Assets			
Cash and cash equivalents		**$ 94,483**	$ 136,832
Investments		**1,210,518**	1,268,128
Members' loans	4	**14,415,625**	14,294,509
Income taxes receivable		**8,807**	8,345
Assets held for sale		**11,858**	8,086
Other assets		**22,800**	19,166
Property and equipment		**140,822**	142,936
Investment property		**4,836**	5,006
Derivative financial assets	7	**6,425**	5,998
Investment in associate		**187,218**	184,587
Intangible assets		**65,271**	66,273
Deferred income tax assets		**-**	607
Total assets		**16,168,663**	16,140,473
Liabilities			
Borrowings		**325,000**	250,000
Securitization liabilities		**1,340,091**	1,329,762
Members' deposits		**12,819,022**	12,839,376
Trade payables and other liabilities		**132,803**	178,301
Income taxes payable		**104**	-
Allowance for off balance sheet credit instruments	4,5	**7,023**	-
Derivative financial liabilities	7	**10,451**	12,372
Investment shares		**437**	427
Defined benefit plans		**7,374**	7,356
Deferred income tax liabilities		**11,893**	11,404
Total liabilities		**14,654,198**	14,628,998
Equity			
Share capital		**652,727**	670,275
Retained earnings		**850,566**	833,009
Accumulated other comprehensive income		**10,179**	7,217
Total equity attributable to members of the Credit Union		**1,513,472**	1,510,501
Non-controlling interest		**993**	974
Total equity		**1,514,465**	1,511,475
Total liabilities and equity		**$ 16,168,663**	$ 16,140,473

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

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

	Notes	Three months ended January 31 2019	Three months ended January 31 2018
Interest income			
Members' loans		$ **147,654**	$ 124,879
Investments		**9,430**	1,375
Total interest income		**157,084**	126,254
Interest expense			
Members' deposits		**45,048**	30,148
Other interest expense		**8,925**	5,432
Total interest expense		**53,973**	35,580
Net interest income		**103,111**	90,674
Other income		**29,708**	22,186
Share of profits from associate		**822**	1,149
Net interest income and other income		**133,641**	114,009
Provision for credit losses	5	**4,541**	1,685
Net interest income after provision for credit losses		**129,100**	112,324
Operating expenses			
Personnel		**48,862**	46,388
General		**17,884**	13,915
Occupancy		**5,262**	5,173
Member security		**3,575**	3,476
Depreciation		**3,111**	3,350
Organization		**1,363**	1,383
Impairment of assets		**52**	142
Amortization		**2,566**	1,695
Total operating expenses		**82,675**	75,522
Income before patronage allocation to members and income taxes		**46,425**	36,802
Patronage allocation to members		**8,383**	7,906
Income before income taxes		**38,042**	28,896
Income taxes		**10,285**	7,758
Net income		$ **27,757**	$ 21,138
Other comprehensive income		**2,962**	7,337
Total comprehensive income		$ **30,719**	$ 28,475
Other comprehensive income (loss) for the year, net of tax:			
Unrealized gain and reclassification adjustments on fair value through other comprehensive income securities (net of income tax expense of $649) [(2)]		**1,756**	-
Reclassification of net gains to net income (net of income tax expense of $42) [(2)]		**(114)**	-
Share of other comprehensive income (loss) from associate			
Actuarial gain (loss) on defined benefit pension plans [(1)] (net of income tax expense (recovery) of $34, 2018 - $(40))		**92**	(108)
Unrealized gain and reclassification adjustments on available for sale securities (net of income tax expense of $454, 2018 - $2,754) [(2)]		**1,228**	7,445
Total other comprehensive income (loss)		$ **2,962**	$ 7,337
Total comprehensive income			
Comprehensive income attributable to members		**30,700**	28,495
Comprehensive income (loss) attributable to non-controlling interest		**19**	(20)
Total comprehensive income		$ **30,719**	$ 28,475

[(1)] *The actuarial gains/losses will not be reclassified to profit or loss at a future date.*

[(2)] *These items may be reclassed to profit or loss at a future date.*

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		5,993	-	-	-	-	5,993
Redemption of share capital		(19,608)	(2,148)	-	-	-	(21,756)
Dividends on share capital		-	-	-	-	-	-
Net income (loss)		-	-	21,158	-	(20)	21,138
Share of other comprehensive loss from associate		-	-	-	7,337	-	7,337
Balance at January 31, 2018		$ 527,857	$ 115,979	$ 784,794	$ 7,193	$ 1,002	$ 1,436,825

	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	**-**	**-**	**(10,181)**	**-**	**-**	**(10,181)**
Balance at November 1, 2018		**550,767**	**119,508**	**822,828**	**7,217**	**974**	**1,501,294**
Changes in equity							
Issues of share capital		**5,608**	**-**	**-**	**-**	**-**	**5,608**
Redemption of share capital		**(20,905)**	**(2,251)**	**-**	**-**	**-**	**(23,156)**
Net income		**-**	**-**	**27,738**	**-**	**19**	**27,757**
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		**-**	**-**	**-**	**1,320**	**-**	**1,320**
Balance at January 31, 2019		**$ 535,470**	**$ 117,257**	**$ 850,566**	**$ 10,179**	**$ 993**	**$ 1,514,465**

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	**Three months ended January 31 2019**	Three months ended January 31 2018
Cash flows from (used in) operating activities			
Net income		**$ 27,757**	$ 21,138
Adjustments for non-cash items and others			
Net interest income		**(103,111)**	(90,674)
Provision for credit losses		**4,541**	1,685
Share of profits from investment in associate		**(822)**	(1,149)
Depreciation and amortization		**5,677**	5,045
Impairment of assets		**52**	142
Gain on assets held for sale		**(101)**	(34)
(Gain) loss on disposal of property and equipment		**(93)**	34
Income taxes		**10,285**	7,758
Adjustments for net changes in operating assets and liabilities			
Change in members' loans		**(127,542)**	17,768
Change in members' deposits		**(28,549)**	(150,448)
Change in assets held for sale		**(7,128)**	(4,875)
Net change in other assets, provisions, and trade payables and other liabilities		**(34,993)**	(52,622)
Income taxes received and (paid), net		**(9,547)**	(4,465)
Interest received		**156,290**	126,135
Interest paid		**(45,778)**	(32,249)
Net cash used in operating activities		**(153,062)**	(156,811)
Cash flows from (used in) investing activities			
Additions to intangible assets		**(1,564)**	(667)
Additions to property and equipment, and investment property		**(1,067)**	(1,134)
Proceeds on disposal of property and equipment, and investment property		**333**	458
Proceeds on disposal of assets held for sale		**3,405**	3,572
Change in derivatives		**(2,348)**	5,116
Investments		**58,773**	130,472
Net cash from investing activities		**57,532**	137,817
Cash flows from (used in) financing activities			
Term loans and lines of credit		**75,000**	(100,000)
Advances of securitization liabilities		**93,641**	430,611
Repayment of securitization liabilities		**(97,856)**	(83,688)
Repayment of obligation under finance leases		**(56)**	-
Shares issued		**5,608**	5,993
Shares redeemed		**(23,156)**	(21,756)
Net cash from financing activities		**53,181**	231,160
(Decrease) Increase in cash and cash equivalents		**(42,349)**	212,166
Cash and cash equivalents, beginning of year		**136,832**	104,118
Cash and cash equivalents, end of year		**$ 94,483**	$ 316,284

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") 2018 audited annual consolidated financial statements.

These interim condensed consolidated financial statements were approved by the Audit and Finance Committee on March 18, 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.

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 January 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.

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.

2. ACCOUNTING POLICIES (CONTINUED)

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 and comprehensive 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.

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 income and comprehensive income in net interest income.

2. ACCOUNTING POLICIES (CONTINUED)

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 and comprehensive 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 and comprehensive 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 and comprehensive 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
- Loans that are 30 days past due are typically considered to have experienced a significant increase in credit risk (Stage 2)
- Loans past 90 days are considered to be in default (Stage 3)
- Other factors known by the Credit Union are also used as appropriate

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

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

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

- 90 or more days past due
- 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 and comprehensive 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.

	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	-	(3,239)	14,291,270
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	-	(3,239)	16,137,234
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	-	-	6,942	6,942
Derivative financial liabilities	12,372	-	-	12,372
Investment shares	427	-	-	427
Defined benefit plans	7,356	-	-	7,356
Deferred income tax liabilities	11,404	-	-	11,404
Total liabilities	14,628,998	-	6,942	14,635,940
Equity				
Share capital	670,275	-	-	670,275
Retained earnings	833,009	-	(10,181)	822,828
Accumulated other comprehensive income	7,217	-	-	7,217
Total equity attributable to members of the Credit Union	1,510,501	-	(10,181)	1,500,320
Non-controlling interest	974	-	-	974
Total equity	1,511,475	-	(10,181)	1,501,294
Total liabilities and equity	$ 16,140,473	$ -	$ (3,239)	$ 16,137,234

(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	$ 3,431	$ 5,079
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	-	6,802	6,802
Collectively assessed *	-	140	140
Total	$ 41,511	$ 10,181	$ 51,692

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

IFRS 15 Revenue from Contracts with Customers

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

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

4. MEMBERS' LOANS

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

	Performing		Impaired			
	Stage 1	Stage 2	Stage 3	Total	Allowance for Credit Losses	Total Net of Allowance
As at January 31, 2019						
Residential mortgages	$ 7,558,190	$ 745,895	$ 27,699	$ 8,331,784	$ 4,983	$ 8,326,801
Commercial and agriculture	4,691,162	113,838	80,736	4,885,736	21,403	4,864,333
Consumer and credit card	1,094,169	138,319	9,268	1,241,756	17,265	1,224,491
Total Member Loans	$ 13,343,521	$ 998,052	$ 117,703	$ 14,459,276	$ 43,651	$ 14,415,625
As at January 31, 2019						
Residential mortgages	$ 1,427,370	$ 18,208	$ 2,212	$ 1,447,790	$ 284	$ 1,447,506
Commercial and agriculture	899,522	7,435	1,550	908,507	510	907,997
Consumer and credit card	1,003,100	26,058	1,328	1,030,486	6,089	1,024,397
Loan commitments and guarantees *	-	47,754	-	47,754	140	47,614
Total Off Balance Sheet Credit Instruments	$ 3,329,992	$ 99,455	$ 5,090	$ 3,434,537	$ 7,023	$ 3,427,514

*collectively assessed

(Canadian $ thousands)

4. MEMBERS' LOANS (CONTINUED)

	Gross Amount	Specific	Collective	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

5. ALLOWANCE FOR CREDIT LOSSES

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

	Residential Mortgages	**Commercial and Agriculture**	**Consumer and Credit Card**	**Collectively Assessed (1)**	**Total**
As at November 1, 2018	**$ 5,373**	**$ 22,526**	**$ 23,653**	**$ 140**	**$ 51,692**
Recoveries of previous loan write-offs	**1**	**71**	**1,319**	**-**	**1,391**
Provision charged to net income	**634**	**(238)**	**4,145**	**-**	**4,541**
	6,008	**22,359**	**29,117**	**140**	**57,624**
Loans written off	**(741)**	**(446)**	**(5,763)**	**-**	**(6,950)**
As at January 31, 2019	**$ 5,267**	**$ 21,913**	**$ 23,354**	**$ 140**	**$ 50,674**
Presented on Interim Condensed Consolidated Statement of Financial Position as:					
Netted with Member loans	**4,983**	**21,403**	**17,265**	**-**	**43,651**
Off balance sheet credit instruments (2)	**284**	**510**	**6,089**	**140**	**7,023**
Total	**$ 5,267**	**$ 21,913**	**$ 23,354**	**$ 140**	**$ 50,674**

(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)

5. ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

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

Allowance for loan losses - Residential Mortgages

	Performing		Impaired	
	Stage 1	Stage 2	Stage 3	Total
As at November 1, 2018	$ 1,377	$ 2,593	$ 1,403	$ 5,373
Transfers				
Stage 1 (1)	9	(8)	(1)	-
Stage 2 (1)	(24)	76	(52)	-
Stage 3 (1)	(67)	(291)	358	-
New originations (2)	50	115	-	165
Repayments (3)	(23)	(113)	549	413
Remeasurements (4)	64	176	(184)	56
Loans written off	-	-	(741)	(741)
Recoveries	-	-	1	1
As at January 31, 2019	$ 1,386	$ 2,548	$ 1,333	$ 5,267
Presented on Interim Condensed Consolidated Statement of Financial Position as:				
Member loans	1,192	2,459	1,332	4,983
Off balance sheet credit instruments	194	89	1	284
Total	$ 1,386	$ 2,548	$ 1,333	$ 5,267

(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 quarter*
(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 - 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)	12	(10)	(2)	-
Stage 2 (1)	(122)	135	(13)	-
Stage 3 (1)	(1,062)	(383)	1,445	-
New originations (2)	193	2	24	219
Repayments (3)	(75)	(14)	(1,196)	(1,285)
Remeasurements (4)	1,200	467	(839)	828
Loans written off	-	-	(446)	(446)
Recoveries	-	-	71	71
As at January 31, 2019	$ 2,957	$ 762	$ 18,194	$ 21,913
Presented on Interim Condensed Consolidated Statement of Financial Position as:				
Member loans	2,593	741	18,069	21,403
Off balance sheet credit instruments	364	21	125	510
Total	$ 2,957	$ 762	$ 18,194	$ 21,913

(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 quarter*
(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)

5. ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

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
Transfers				-
Stage 1 (1)	60	(54)	(6)	-
Stage 2 (1)	(235)	465	(230)	-
Stage 3 (1)	(334)	(3,095)	3,429	-
New originations (2)	1,032	118	13	1,163
Repayments (3)	(155)	(337)	2,283	1,791
Remeasurements (4)	469	2,330	(1,608)	1,191
Loans written off	-	-	(5,763)	(5,763)
Recoveries	-	-	1,319	1,319
As at January 31, 2019	$ 8,152	$ 10,131	$ 5,071	$ 23,354
Presented on Interim Condensed Consolidated Statement of Financial Position as:				
Member loans	4,346	8,037	4,882	17,265
Off balance sheet credit instruments	3,806	2,094	189	6,089
Total	$ 8,152	$ 10,131	$ 5,071	$ 23,354

(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 quarter*

(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*

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

(Canadian $ thousands)

6. CREDIT QUALITY OF MEMBERS' LOANS

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

As at January 31, 2019	Residential Mortgages	Commercial and Agriculture	Consumer and Credit Card	Total
Risk Categories				
Very low risk	$ 2,705,872	$ 7,005	$ 261,332	$ 2,974,209
Low risk	1,546,872	2,407,926	207,984	4,162,782
Medium risk	2,826,503	2,333,250	462,250	5,622,003
High risk	1,224,838	56,819	300,922	1,582,579
Impaired	27,699	80,736	9,268	117,703
Total Loans	$ 8,331,784	$ 4,885,736	$ 1,241,756	$ 14,459,276

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

As at January 31, 2019	Residential Mortgages	Commercial and Agriculture	Consumer and Credit Card	Loan Commitments and Guarantees	Total
Risk Categories					
Very low risk	$ 943,655	$ 17,651	$ 521,537	$ -	$ 1,482,843
Low risk	299,675	706,161	205,564	-	1,211,400
Medium risk	171,501	180,745	195,658	47,754	595,658
High risk	30,747	2,400	106,399	-	139,546
Impaired	2,212	1,550	1,328	-	5,090
Total Loan Commitments	$ 1,447,790	$ 908,507	$ 1,030,486	$ 47,754	$ 3,434,537

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

Risk Assessment	**Beacon Score Range (1)**	**Risk Rating Range (2)**
Very low risk	800 +	1
Low risk	750-799	2 and 3
Medium risk	650-749	4, 5
High risk	649 or less	6 ,7, 8, and 9

(1) *Used for residential mortgages, consumer loans and credit cards.*

(2) *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

(Canadian $ thousands)

6. CREDIT QUALITY OF MEMBERS' LOANS (CONTINUED)

- 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 January 31, 2019	Up to 30 days	31 - 59 days	60 to 89 days	over 90 days	Total
Stage 1					
Consumer and credit card	$ 20,103	$ -	$ -	$ -	$ 20,103
Commercial and agriculture	20,994	-	-	-	20,994
Residential mortgages	74,670	-	-	-	74,670
Stage 2					
Consumer and credit card	10,040	10,412	5,227	-	25,679
Commercial and agriculture	4,934	41,944	15,320	-	62,198
Residential mortgages	35,732	48,248	17,998	-	101,978
Stage3					
Consumer and credit card	-	-	-	8,789	8,789
Commercial and agriculture	230	958	1,103	59,226	61,517
Residential mortgages	-	101	-	27,249	27,350
Total	**$ 166,703**	**$ 101,663**	**$ 39,648**	**$ 95,264**	**$ 403,278**

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 January 31 2019	As at October 31 2018
Loans by security		
Insured loans and mortgages	**$ 2,893,829**	$ 2,801,700
Secured by mortgage	**9,787,684**	9,416,496
Secured by other	**1,243,992**	1,018,589
Unsecured	**533,771**	1,099,235
Total	**$ 14,459,276**	$ 14,336,020

(Canadian $ thousands)

7. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

As at January 31, 2019	**Equity-linked Options**	**Interest Rate Swaps**	**Bond Forwards**	**Total**
Derivative Financial Assets				
Gross amounts of financial assets before statement of financial position offsetting	**$ -**	**$ 11,043**	**$ -**	**$ 11,043**
Gross amounts of financial liabilities before statement of financial position offsetting	**-**	**(10,732)**	**-**	**(10,732)**
Net amount of financial assets presented on the statement of financial position	**-**	**311**	**-**	**311**
Amounts not subject to enforceable netting arrangements	**6,114**	**-**	**-**	**6,114**
Derivative Financial Asset amounts not subject to enforcable netting arangements	**$ 6,114**	**$ 311**	**$ -**	**$ 6,425**
Derivative Financial Liabilities				
Gross amounts of financial assets before statement of financial position offsetting	**$ -**	**$ (8,037)**	**$ -**	**$ (8,037)**
Gross amounts of financial liabilities before statement of financial position offsetting	**-**	**12,193**	**-**	**12,193**
Net amount of financial liabilities presented on the statement of financial position	**-**	**4,156**	**-**	**4,156**
Amounts not subject to enforceable netting arrangements	**6,040**	**-**	**255**	**6,295**
Total	**$ 6,040**	**$ 4,156**	**$ 255**	**$ 10,451**

As at October 31, 2018	Equity-linked Options	Interest Rate Swaps	Bond Forwards	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)

7. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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

	1 to 3 months	**3 to 12 months**	**1 to 5 years**	**As at January 31 2019**	As at October 31 2018
Interest rate swaps receive fixed, pay floating	**$ 200,000**	**$ 800,000**	**$ 200,000**	**$ 1,200,000**	$ 1,000,000
Equity-linked options	**15,520**	**1,500**	**71,355**	**88,375**	87,875
Bond Forward	**4,600**	**-**	**-**	**4,600**	-
Total	**$ 220,120**	**$ 801,500**	**$ 271,355**	**$ 1,292,975**	$ 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.

Bond Forward Contracts
Bond forward contracts are contractual obligations to buy or sell an interest-rate sensitive bond on a predetermined future date at a specified price.

(Canadian $ thousands)

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

		As at January 31, 2019		
	Note	Carrying Value	Fair Value	Fair Value Difference
Financial Instrument Assets				
Cash and cash equivalents	a	$ 94,483	$ 94,483	$ -
Interest bearing deposits with financial institutions	c	1,210,208	1,210,283	75
Assets at amortized cost	e	310	310	-
Assets at fair value through profit or loss	d	6,425	6,425	-
Members' loans	b,c,g	14,415,625	14,286,584	(129,041)
Other	a	7,453	7,453	-
		15,734,504	15,605,538	(128,966)
Financial Instrument Liabilities				
Members' deposits	b,c	12,819,022	12,815,683	3,339
Liabilities at fair value through profit or loss	d	10,451	10,451	-
Borrowings	a	325,000	325,000	-
Securitization liabilities	c	1,340,091	1,322,016	18,075
Trade payables and other liabilities	a	132,912	132,912	-
Off balance sheet provisions	g	7,023	7,023	-
		$ 14,634,499	$ 14,613,085	$ 21,414

(Canadian $ thousands)

8. 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	$ 136,832	$ 136,832	$ -
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	-
		15,711,018	15,599,557	(111,461)
Financial Instrument Liabilities				
Members' deposits	b,c	12,839,376	12,827,691	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
Trade payables and other liabilities	a	178,552	178,552	-
		$ 14,610,062	$ 14,565,179	$ 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 secured borrowings are determined by discounting the expected future cash flows of these loans and deposits based on yield curves of financial assets and liabilities with similar terms and credit risks.
(d) The fair values of derivative financial instruments are calculated based on valuation techniques using inputs reflecting market conditions at a specific point in time and may not be reflective of future fair values.
(e) The fair values of assets at amortized cost are assumed to equal their book values since a fair value adjustment cannot be supported because there is no available market to purchase the assets.
(f) The fair value of mortgage backed security bonds is based on quoted market prices for identical bonds traded in an active market.
(g) Provisions and allowances use forward-looking information in the calculation of expected credit losses.

(Canadian $ thousands)

8. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

As at January 31, 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative assets	**$ -**	**$ 6,425**	**$ -**	**$ 6,425**
Financial assets held at fair value	**$ -**	**$ 6,425**	**$ -**	**$ 6,425**
Member shares - Series E	**-**	**(437)**	**-**	**(437)**
Derivative liabilities	**-**	**(10,451)**	**-**	**(10,451)**
Financial liabilities held at fair value	**$ -**	**$ (10,888)**	**$ -**	**$ (10,888)**

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	$ -

9. SIGNIFICANT CHANGES IN THE CURRENT REPORTING PERIOD

In 2018, Servus purchased mortgage backed securities (MBS) bonds that were classified as fair value through other comprehensive income. The bonds were sold on Jan 28, 2019 which resulted in a realized gain of $114 that was transferred from other comprehensive income to other income.

10. EVENTS AFTER THE REPORTING PERIOD

The Credit Union was selected by Edson Credit Union as a merger partner. On February 13, 2019 the Edson membership voted to proceed with the merger. The results of the vote and the Amalgamation Agreement will be sent to the provincial regulator and Minister of Finance for approval. Once approved, the merger is expected to occur in the third quarter of 2019. Edson Credit Union has a single branch in Edson, Alberta and currently has about $57 million in assets and 2500 members.

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.