

SERVUS CREDIT UNION LTD.
Interim Condensed Consolidated Financial Statements
For the six months ended
April 30, 2015
(unaudited)

NOTICE OF NO AUDITOR REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited interim condensed consolidated financial statements ("financial statements") of Servus Credit Union Ltd (the "Credit Union") have been prepared by and are the responsibility of the Credit Union's management.

The Credit Union's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

SERVUS CREDIT UNION LTD.
Interim Condensed Consolidated Financial Statements

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

	Notes	April 30 2015	October 31 2014
Assets			
Cash and cash equivalents	4	\$ 83,075	\$ 124,813
Investments		1,194,103	1,015,716
Members' loans	5,7	12,465,104	12,467,469
Income taxes receivable		-	5,268
Assets held for sale		10,377	5,322
Other assets		27,951	9,671
Property and equipment		171,639	172,412
Investment property		7,431	7,360
Derivative financial assets	8	23,181	23,000
Investments in associates		170,215	164,103
Intangible assets		48,503	48,728
Deferred income tax assets		44	44
Total assets		14,201,623	14,043,906
Liabilities			
Borrowings		386,727	148,696
Members' deposits		12,462,714	12,569,549
Trade payables and other liabilities		129,616	156,189
Income taxes payable		1,533	-
Derivative financial liabilities	8	4,176	4,932
Investment shares		489	489
Defined benefit plans		6,739	6,741
Deferred income tax liabilities		14,536	14,536
Total liabilities		13,006,530	12,901,132
Equity			
Share capital		575,978	559,079
Retained earnings		617,197	581,776
Accumulated other comprehensive income		907	907
Total equity attributable to members of the Credit Union		1,194,082	1,141,762
Non-controlling interest		1,011	1,012
Total equity		1,195,093	1,142,774
Total liabilities and equity		\$ 14,201,623	\$ 14,043,906

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)

Note	Three months ended April 30 2015	Three months ended April 30 2014	Six months ended April 30 2015	Six months ended April 30 2014
Interest income				
Members' loans	\$ 117,011	\$ 119,138	\$ 240,504	\$ 239,831
Investments	3,994	2,237	2,234	4,426
Total interest income	121,005	121,375	242,738	244,257
Interest expense				
Members' deposits	31,312	37,334	66,703	73,751
Other interest expense	2,095	642	2,954	1,375
Total interest expense	33,407	37,976	69,657	75,126
Net interest income				
Other income	87,598	83,399	173,081	169,131
Share of profits from associates	20,724	18,163	41,875	38,531
	3,215	3,738	4,948	6,413
Net interest income and other income	111,537	105,300	219,904	214,075
Provision for credit losses	6	4,262	2,664	6,330
Net interest income after provision for credit losses	107,275	102,636	213,574	209,136
Operating expenses				
Personnel	46,825	47,527	92,036	91,541
General	12,779	13,619	26,189	28,320
Occupancy	5,244	5,313	10,295	10,563
Member security	5,386	4,826	11,031	9,626
Depreciation	3,121	3,608	6,811	7,198
Organization	1,157	1,121	2,439	2,361
Amortization	2,508	1,038	3,753	1,428
Total operating expenses	77,020	77,052	152,554	151,037
Income before patronage allocation to members and income taxes				
	30,255	25,584	61,020	58,099
Patronage allocation to members	7,434	7,127	14,859	14,173
Income before income taxes	22,821	18,457	46,161	43,926
Income taxes	5,310	4,190	10,740	9,911
Net income and comprehensive income	\$ 17,511	\$ 14,267	\$ 35,421	\$ 34,015
Net income and comprehensive income attributable to:				
Members of the Credit Union	\$ 17,513	\$ 14,267	\$ 35,422	\$ 34,014
Non-controlling interest	(2)	-	(1)	1

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

Notes	Six months ended April 30 2015	Six months ended April 30 2014
Share capital		
Common shares		
Balance, beginning of period	\$ 445,566	\$ 418,161
Issued	23,378	12,537
Redeemed	(3,244)	(13,308)
Balance, end of period	465,700	417,390
Investment shares		
Balance, beginning of period	113,513	110,848
Redeemed	(3,235)	(2,096)
Balance, end of period	110,278	108,752
Share capital, end of period	\$ 575,978	\$ 526,142
Retained earnings		
Balance, beginning of period	\$ 581,776	\$ 530,067
Net income	35,421	34,015
Retained earnings, end of period	\$ 617,197	\$ 564,082
Accumulated other comprehensive income (AOCI)		
Balance, beginning of period	\$ 907	\$ 447
AOCI, end of period	\$ 907	\$ 447
Total equity attributable to members of the Credit Union	\$ 1,194,082	\$ 1,090,671
Non-controlling interest		
Balance, beginning of period	1,012	1,014
Net income	(1)	1
Non-controlling interest, end of period	1,011	1,015
Total equity	\$ 1,195,093	\$ 1,091,686

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

	Six months ended April 30 2015	Six months ended April 30 2014
Cash Flows From Operating Activities		
Net income	\$ 35,421	\$ 35,660
Adjustments for non-cash items and others		
Net interest income	(173,081)	(169,131)
Provision for credit losses	6,330	4,939
Share of profits from investments in associates	(4,948)	(6,413)
Depreciation and amortization	10,564	8,626
Gain on assets held for sale	(1,796)	(455)
Gain on sale of property and equipment	(8)	(15)
Income taxes	10,740	9,911
Adjustments for net changes in operating assets and liabilities		
Change in members' loans	(5,358)	(246,659)
Change in members' deposits	(83,359)	355,525
Change in assets held for sale	(8,132)	1,523
Change in derivatives	(937)	(104)
Net change in other assets, provisions, and trade payables and other liabilities	(44,843)	4,709
Income taxes received and paid, net	(3,939)	(12,346)
Interest received	244,220	242,785
Interest paid	(93,301)	(83,538)
Net cash (used in) from operating activities	(112,427)	145,017
Cash Flows From Investing Activities		
Additions to intangible assets	(3,658)	(6,256)
Additions to property and equipment and investment property	(6,050)	(2,282)
Proceeds on disposal of property and equipment, and investment property	65	22
Proceeds on disposal of assets held for sale	4,873	806
Purchase of Alberta Central shares	(9,274)	(9,305)
Distributions from Alberta Central	8,110	8,410
Investments	(178,475)	(157,527)
Net cash used in investing activities	(184,409)	(166,132)
Cash Flows From Financing Activities		
Advances of term loans and lines of credit	704,042	-
Repayment of term loans and lines of credit	(804,042)	-
Advances of secured borrowing	349,284	-
Repayment of secured borrowing	(11,085)	(1,765)
Shares issued	23,378	12,537
Shares redeemed	(6,479)	(15,404)
Net cash from (used in) financing activities	255,098	(4,632)
(Decrease) in Cash and cash equivalents	(41,738)	(25,747)
Cash and cash equivalents, beginning of period	124,813	142,310
Cash and cash equivalents, end of period	\$ 83,075	\$ 116,563

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

SERVUS CREDIT UNION LTD.
Notes to Interim Condensed Consolidated Financial Statements
(Canadian \$ thousands)
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1. REPORTING ENTITY

Servus Credit Union Ltd. ("Servus" or the "Credit Union") is incorporated in Canada under the Credit Union Act of the Province of Alberta. The address of the Credit Union's registered office is 151 Karl Clark Road, Edmonton, Alberta. The Credit Union operates in the loans and deposit taking industry regulated under the Credit Union Act. The Credit Union serves Members across Alberta.

The Credit Union Deposit Guarantee Corporation (the "Corporation"), a provincial corporation, guarantees the repayment of all deposits with Alberta credit unions, including accrued interest. The Credit Union Act (The "Act") provides that the Province of Alberta will ensure that the Corporation carries out this obligation.

2. 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 the Credit Union's 2014 audited annual consolidated financial statements. The accounting policies, methods of computation and presentation of these interim condensed consolidated financial statements are consistent with the most recent 2014 annual financial statements except as described in Note 3.

These interim condensed consolidated financial statements were approved by the Audit and Finance Committee on June 25, 2015.

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' 2014 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 2014 annual financial statements.

3. CHANGES IN ACCOUNTING POLICIES

These interim condensed consolidated financial statements have been prepared following the same accounting policies and methods as those used in preparing Servus' 2014 annual consolidated financial statements, with the exception of accounting policies adopted as a result of the following new and amended accounting standards relevant to Servus effective November 1, 2014.

IFRIC 21 – Levies

In May 2013, the IASB issued IFRIC 21 which provides guidance on when to recognize a liability to pay a levy that is accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. It also addresses the accounting for a liability to pay a levy whose timing and amount is uncertain.

IFRIC 21 has been adopted retrospectively and has had no impact on these interim condensed consolidated financial statements.

SERVUS CREDIT UNION LTD.
Notes to Interim Condensed Consolidated Financial Statements
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3. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

IAS 32 – Financial Instruments: Presentation (Amendments)

The standard has been amended requiring the presentation of financial assets and financial liabilities on a net basis when doing so reflects an entity's expected future cash flows from settling two or more separate financial instruments.

IAS 32 has been adopted retrospectively and has had no impact on these interim condensed consolidated financial statements.

4. CASH AND CASH EQUIVALENTS

	As at April 30 2015	As at October 31 2014
Cash on hand	\$ 16,555	\$ 13,485
ATM	16,083	10,566
Foreign exchange cash	533	284
Cash with Alberta Central	49,979	101,892
Cheques and items in transit	(75)	(1,414)
Total	\$ 83,075	\$ 124,813

5. MEMBERS' LOANS

	Gross Amount	Specific allowance	Collective allowance	Net Amount	Impaired Loans
As at April 30, 2015					
Residential mortgages	\$ 7,130,520	\$ 1,217	\$ 926	\$ 7,128,377	\$ 2,155
Commercial mortgages and loans	3,902,215	27,570	3,352	3,871,293	43,614
Consumer loans	1,102,187	2,914	4,228	1,095,045	4,598
Agricultural mortgages and loans	334,069	60	5	334,004	630
	12,468,991	31,761	8,511	12,428,719	50,997
Accrued interest	39,576	2,704	487	36,385	-
Total	\$ 12,508,567	\$ 34,465	\$ 8,998	\$ 12,465,104	\$ 50,997

	Gross Amount	Specific allowance	Collective allowance	Net Amount	Impaired Loans
As at October 31, 2014					
Residential mortgages	\$ 7,085,304	\$ 804	\$ 931	\$ 7,083,569	\$ 1,530
Commercial mortgages and loans	3,892,143	27,210	2,282	3,862,651	45,251
Consumer loans	1,156,643	2,244	4,089	1,150,310	3,847
Agricultural mortgages and loans	330,056	85	2	329,969	625
	12,464,146	30,343	7,304	12,426,499	51,253
Accrued interest	43,441	1,954	517	40,970	-
Total	\$ 12,507,587	\$ 32,297	\$ 7,821	\$ 12,467,469	\$ 51,253

SERVUS CREDIT UNION LTD.
Notes to Interim Condensed Consolidated Financial Statements
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6. ALLOWANCE FOR CREDIT LOSSES

Specific Allowance

	Residential	Commercial	Consumer	Agricultural	Interest	Total
As at October 31, 2014	\$ 804	\$ 27,210	\$ 2,244	\$ 85	\$ 1,954	\$ 32,297
Recoveries of previous loan write offs	-	40	683	-	-	723
Allowance charged to net income	564	1,609	2,146	(25)	859	5,153
	1,368	28,859	5,073	60	2,813	38,173
Loans written off	151	1,289	2,159	-	109	3,708
As at April 30, 2015	\$ 1,217	\$ 27,570	\$ 2,914	\$ 60	\$ 2,704	\$ 34,465

	Residential	Commercial	Consumer	Agricultural	Interest	Total
As at October 31, 2013	\$ 655	\$ 25,145	\$ 3,395	\$ 46	\$ 1,420	\$ 30,661
Recoveries of previous loan write offs	5	410	1,226	6	-	1,647
Allowance charged to net income	944	7,108	2,814	33	877	11,776
	1,604	32,663	7,435	85	2,297	44,084
Loans written off	800	5,453	5,191	-	343	11,787
As at October 31, 2014	\$ 804	\$ 27,210	\$ 2,244	\$ 85	\$ 1,954	\$ 32,297

Collective Allowance

	Residential	Commercial	Consumer	Agricultural	Interest	Total
As at October 31, 2014	\$ 931	\$ 2,282	\$ 4,089	\$ 2	\$ 517	\$ 7,821
Allowance charged to net income	(5)	1,070	139	3	(30)	1,177
As at April 30, 2015	\$ 926	\$ 3,352	\$ 4,228	\$ 5	\$ 487	\$ 8,998

	Residential	Commercial	Consumer	Agricultural	Interest	Total
As at October 31, 2013	\$ 1,217	\$ 2,509	\$ 2,816	\$ 21	\$ 502	\$ 7,065
Allowance charged to net income	(286)	(227)	1,273	(19)	15	756
As at October 31, 2014	\$ 931	\$ 2,282	\$ 4,089	\$ 2	\$ 517	\$ 7,821

7. CREDIT QUALITY OF MEMBERS' LOANS

The following analysis includes individual loans that are impaired, or potentially impaired, based on age of repayments outstanding, in determining the specific allowance. Risk categories are defined by the Corporation and allow management to monitor credit risk.

<i>As at April 30, 2015</i>	Residential	Commercial	Consumer	Agricultural	Total
Risk Categories					
1 to 5 - Satisfactory risk	\$ -	\$ 3,835,690	\$ -	\$ 332,570	\$ 4,168,260
6 - Watch list	-	22,695	-	644	23,339
8 - Impaired risk - performing	-	-	-	-	-
7 and 9 - Unacceptable/impaired risk - non-performing	-	216	-	225	441
Commercial & agricultural mortgages and loans not impaired	-	3,858,601	-	333,439	4,192,040
Residential mortgages and personal loans not impaired	7,128,365	-	1,097,589	-	8,225,954
Loans not impaired	7,128,365	3,858,601	1,097,589	333,439	12,417,994
Loans specifically impaired	2,155	43,614	4,598	630	50,997
Sub Total	7,130,520	3,902,215	1,102,187	334,069	12,468,991
Accrued interest	11,630	12,678	12,244	3,024	39,576
Total	\$ 7,142,150	\$ 3,914,893	\$ 1,114,431	\$ 337,093	\$ 12,508,567

SERVUS CREDIT UNION LTD.
Notes to Interim Condensed Consolidated Financial Statements
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7. CREDIT QUALITY OF MEMBERS' LOANS (CONTINUED)

<i>As at October 31, 2014</i>	Residential	Commercial	Consumer	Agricultural	Total
Risk Categories					
1 to 5 - Satisfactory risk	\$ -	\$ 3,809,399	\$ -	\$ 327,986	\$ 4,137,385
6 - Watch list	-	36,242	-	1,232	37,474
8 - Impaired Risk - Performing	-	-	-	-	-
7 and 9 - Unacceptable/impaired risk - non-performing	-	1,250	-	213	1,463
Commercial & agricultural mortgages and loans not impaired	-	3,846,891	-	329,431	4,176,322
Residential mortgages and personal loans not impaired	7,083,774	-	1,152,797	-	8,236,571
Loans not impaired	7,083,774	3,846,891	1,152,797	329,431	12,412,893
Loans specifically impaired	1,530	45,251	3,847	625	51,253
Sub Total	7,085,304	3,892,142	1,156,644	330,056	12,464,146
Accrued interest	11,560	14,256	13,824	3,801	43,441
Total	\$ 7,096,864	\$ 3,906,398	\$ 1,170,468	\$ 333,857	\$ 12,507,587

- **Risk Rating 6:** This category includes accounts where there is not a risk for principal or interest at present but performance trend is negative and unless reversed could lead to losses for Servus. This is a transitional rating as the expectation is to be able to upgrade the account within the next 12 month period.
- **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 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. Collection of interest is in doubt but there is no exposure for principal.
- **Risk Rating 9:** Same criteria that is established for Risk "7" but there is deterioration in value of the security that could make a loss in principal likely.

Loans past due as at April 30, 2015

	Residential	Commercial	Consumer	Agricultural	Total
Past due up to 29 days	\$ 64,678	\$ 9,194	\$ 10,296	\$ 3,710	\$ 87,878
Past due 30 - 59 days	31,885	33,473	5,990	1,101	72,449
Past due 60 - 89 days	9,850	7,730	2,203	323	20,106
Past due over 90 days	10,491	49,401	3,692	2,370	65,954
Total	\$ 116,904	\$ 99,798	\$ 22,181	\$ 7,504	\$ 246,387

Loans past due as at October 31, 2014

	Residential	Commercial	Consumer	Agricultural	Total
Past due up to 29 days	\$ 121,221	\$ 12,432	\$ 14,193	\$ 3,927	\$ 151,773
Past due 30 - 59 days	20,594	20,193	4,884	1,332	47,003
Past due 60 - 89 days	8,429	2,620	1,611	119	12,779
Past due over 90 days	11,965	53,559	3,591	1,558	70,673
Total	\$ 162,209	\$ 88,804	\$ 24,279	\$ 6,936	\$ 282,228

Loans Past Due but Not Impaired

Members' loans are considered past due when payments have not been received by the contractual due date. The following table presents the carrying value of Members' loans that are past due but not classified as impaired because they are either (i) less than 90 days past due unless there is information to the contrary that an impairment event has occurred or (ii) fully secured and collection efforts are reasonably expected to result in full repayment.

SERVUS CREDIT UNION LTD.
Notes to Interim Condensed Consolidated Financial Statements
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7. CREDIT QUALITY OF MEMBERS' LOANS (CONTINUED)

Members' loans that are past due but not impaired are as follows:

Loans past due but not impaired as at April 30, 2015

	Residential	Commercial	Consumer	Agricultural	Total
Past due up to 29 days	\$ 64,676	\$ 9,194	\$ 9,669	\$ 3,710	\$ 87,249
Past due 30 - 59 days	31,886	33,473	5,884	1,101	72,344
Past due 60 - 89 days	9,808	6,875	1,594	322	18,599
Past due over 90 days	8,379	6,642	436	1,741	17,198
Total	\$ 114,749	\$ 56,184	\$ 17,583	\$ 6,874	\$ 195,390

Loans past due but not impaired as at October 31, 2014

	Residential	Commercial	Consumer	Agricultural	Total
Past due up to 29 days	\$ 121,213	\$ 12,298	\$ 13,959	\$ 3,927	\$ 151,397
Past due 30 - 59 days	20,594	19,184	4,733	1,332	45,843
Past due 60 - 89 days	8,429	2,195	708	118	11,450
Past due over 90 days	10,443	9,876	1,032	934	22,285
Total	\$ 160,679	\$ 43,553	\$ 20,432	\$ 6,311	\$ 230,975

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 the 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 risk exposure risk.

	As at April 30 2015	As at October 31 2014
Loans by security:		
Secured by mortgage	\$ 9,351,616	\$ 9,214,232
Secured by other	2,482,570	2,596,072
Unsecured	674,381	697,283
Total	\$12,508,567	\$ 12,507,587

8. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

	As at April 30 2015	As at October 31 2014
Derivative Financial Assets		
Equity-linked options	\$ 4,217	\$ 5,013
Embedded purchase option	18,908	17,987
Bond Forward Contracts	56	-
Total	\$ 23,181	\$ 23,000
Derivative Financial Liabilities		
Embedded derivatives	\$ 4,176	\$ 4,932
Total	\$ 4,176	\$ 4,932

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8. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Equity-Linked Options

Equity-linked options are used to fix costs on term deposit products which pay a return to the deposit holder based on the change in equity market indexes. The embedded derivative in the term deposit product as well as the option derivatives is marked to market through interest income investments. The fair value of the equity linked derivative contract is separately presented as part of derivative instrument assets.

Embedded Purchase Option

The Credit Union entered into an arrangement with a third party, where the third party acts as an agent to offer credit cards to its members. The agreement lasts for three years and renews automatically unless either party provides notice to terminate. The agreement contains an option for the Credit Union to acquire the underlying consumer loans associated with the credit cards. The exercise price is linked to the book value of the loans and notice of intent to exercise the option must be provided one year prior to the termination of the agreement. The current agreement is due to renew in September 2015.

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.

Embedded Derivatives

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risk are not closely related to those of the host contract and the combined contract is not carried at fair value. Identified embedded derivatives are separated from the host contract and are recorded at fair value.