

SERVUS CREDIT UNION LTD.
Interim Condensed Consolidated Financial Statements
For the nine months ended
July 31, 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	July 31 2015	October 31 2014
Assets			
Cash and cash equivalents	4	\$ 124,911	\$ 124,813
Investments		1,023,701	1,015,716
Members' loans	5,7	12,577,799	12,467,469
Income taxes receivable		-	5,268
Assets held for sale		10,842	5,322
Other assets		16,655	9,671
Property and equipment		169,867	172,412
Investment property		7,315	7,360
Derivative financial assets	8	24,093	23,000
Investments in associates		171,878	164,103
Intangible assets		47,943	48,728
Deferred income tax assets		44	44
Total assets		14,175,048	14,043,906
Liabilities			
Borrowings		570,871	148,696
Members' deposits		12,233,358	12,569,549
Trade payables and other liabilities		116,485	156,189
Income taxes payable		7,828	-
Derivative financial liabilities	8	3,873	4,932
Investment shares		489	489
Defined benefit plans		6,738	6,741
Deferred income tax liabilities		14,603	14,536
Total liabilities		12,954,245	12,901,132
Equity			
Share capital		583,224	559,079
Retained earnings		635,675	581,776
Accumulated other comprehensive income		907	907
Total equity attributable to members of the Credit Union		1,219,806	1,141,762
Non-controlling interest		997	1,012
Total equity		1,220,803	1,142,774
Total liabilities and equity		\$ 14,175,048	\$ 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 July 31 2015	Three months ended July 31 2014	Nine months ended July 31 2015	Nine months ended July 31 2014
Interest income				
Members' loans	\$ 119,893	\$ 121,851	\$ 360,397	\$ 361,682
Investments	2,417	2,393	4,651	6,819
Total interest income	122,310	124,244	365,048	368,501
Interest expense				
Members' deposits	27,920	37,327	94,623	111,078
Other interest expense	2,437	253	5,391	1,628
Total interest expense	30,357	37,580	100,014	112,706
Net interest income				
Other income	91,953	86,664	265,034	255,795
Share of profits from associates	22,013	22,061	63,888	60,592
	1,663	2,157	6,611	8,570
Net interest income and other income	115,629	110,882	335,533	324,957
Provision for credit losses	6	5,816	4,409	12,146
Net interest income after provision for credit losses	109,813	106,473	323,387	315,609
Operating expenses				
Personnel	46,136	46,555	138,172	138,096
General	13,736	14,978	39,926	43,298
Occupancy	5,064	5,111	15,359	15,674
Member security	5,631	5,043	16,662	14,669
Depreciation	3,791	3,736	10,602	10,934
Organization	1,337	1,296	3,776	3,657
Amortization	1,716	1,074	5,469	2,502
Total operating expenses	77,411	77,793	229,966	228,830
Income before patronage allocation to members and income taxes				
	32,402	28,680	93,421	86,779
Patronage allocation to members	7,432	7,129	22,291	21,302
Income before income taxes	24,970	21,551	71,130	65,477
Income taxes	6,491	5,008	17,231	14,919
Net income and comprehensive income	\$ 18,479	\$ 16,543	\$ 53,899	\$ 50,558
Net income and comprehensive income attributable to:				
Members of the Credit Union	\$ 18,493	\$ 16,542	\$ 53,914	\$ 50,556
Non-controlling interest	(14)	1	(15)	2

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

	Nine months ended July 31 2015	Nine months ended July 31 2014
Notes		
Share capital		
Common shares		
Balance, beginning of period	\$ 445,566	\$ 418,161
Issued	50,197	17,533
Redeemed	(22,405)	(15,759)
Balance, end of period	473,358	419,935
Investment shares		
Balance, beginning of period	113,513	110,848
Redeemed	(3,647)	(2,577)
Balance, end of period	109,866	108,271
Share capital, end of period	\$ 583,224	\$ 528,206
Retained earnings		
Balance, beginning of period	\$ 581,776	\$ 530,067
Net income	53,899	50,558
Retained earnings, end of period	\$ 635,675	\$ 580,625
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	\$ 1,219,806	\$ 1,109,278
Non-controlling interest		
Balance, beginning of period	1,012	1,014
Net income	(15)	2
Non-controlling interest, end of period	997	1,016
Total equity	\$ 1,220,803	\$ 1,110,294

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

	Nine months ended July 31 2015	Nine months ended July 31 2014
Cash Flows From Operating Activities		
Net income	\$ 53,899	\$ 50,558
Adjustments for non-cash items and others		
Net interest income	(265,034)	(255,795)
Provision for credit losses	12,146	9,348
Share of profits from investments in associates	(6,611)	(8,570)
Depreciation and amortization	16,071	13,436
Gain on assets held for sale	(1,696)	(544)
Loss/(gain) on sale of property and equipment	49	(35)
Income taxes	17,231	14,919
Adjustments for net changes in operating assets and liabilities		
Change in members' loans	(125,242)	(543,123)
Change in members' deposits	(308,206)	735,309
Change in assets held for sale	(8,697)	2,733
Change in derivatives	(2,152)	(1,377)
Net change in other assets, provisions, and trade payables and other liabilities	(46,687)	(26,187)
Income taxes received and paid, net	(4,068)	(16,859)
Interest received	367,747	366,789
Interest paid	(128,167)	(114,625)
Net cash (used in) from operating activities	(429,417)	225,977
Cash Flows From Investing Activities		
Additions to intangible assets	(4,851)	(9,266)
Additions to property and equipment and investment property	(8,027)	(4,333)
Proceeds on disposal of property and equipment, and investment property	112	47
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	(7,916)	(221,702)
Net cash used in investing activities	(16,973)	(235,343)
Cash Flows From Financing Activities		
Advances of term loans and lines of credit	1,008,426	-
Repayment of term loans and lines of credit	(1,108,426)	-
Advances of secured borrowing	547,851	-
Repayment of secured borrowing	(25,508)	(17,630)
Shares issued	50,197	17,533
Shares redeemed	(26,052)	(18,336)
Net cash from (used in) financing activities	446,488	(18,433)
Increase/(decrease) in Cash and cash equivalents	98	(27,799)
Cash and cash equivalents, beginning of period	124,813	142,310
Cash and cash equivalents, end of period	\$ 124,911	\$ 114,511

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

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 September 24, 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 July 31 2015	As at October 31 2014
Cash on hand	\$ 13,471	\$ 13,485
ATM	16,482	10,566
Foreign exchange cash	501	284
Cash with Alberta Central	93,755	101,892
Cheques and items in transit	702	(1,414)
Total	\$ 124,911	\$ 124,813

5. MEMBERS' LOANS

	Gross Amount	Specific allowance	Collective allowance	Net Amount	Impaired Loans
As at July 31, 2015					
Residential mortgages	\$ 7,245,556	\$ 340	\$ 1,379	\$ 7,243,837	\$ 642
Commercial mortgages and loans	3,911,165	27,965	3,936	3,879,264	40,200
Consumer loans	1,081,375	2,534	5,813	1,073,028	4,274
Agricultural mortgages and loans	345,654	103	10	345,541	662
	12,583,750	30,942	11,138	12,541,670	45,778
Accrued interest	38,202	1,392	681	36,129	-
Total	\$ 12,621,952	\$ 32,334	\$ 11,819	\$ 12,577,799	\$ 45,778

	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
(Canadian \$ thousands)
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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	12	50	985	-	-	1,047
Allowance charged to net income	509	4,208	3,391	18	22	8,148
	1,325	31,468	6,620	103	1,976	41,492
Loans written off	985	3,503	4,086	-	584	9,158
As at July 31, 2015	\$ 340	\$ 27,965	\$ 2,534	\$ 103	\$ 1,392	\$ 32,334

	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	448	1,654	1,724	8	164	3,998
As at July 31, 2015	\$ 1,379	\$ 3,936	\$ 5,813	\$ 10	\$ 681	\$ 11,819

	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 July 31, 2015</i>	Residential	Commercial	Consumer	Agricultural	Total
Risk Categories					
1 to 5 - Satisfactory risk	\$ -	\$ 3,838,721	\$ -	\$ 343,943	\$ 4,182,664
6 - Watch list	-	31,336	-	818	32,154
8 - Impaired risk - performing	-	179	-	-	179
7 and 9 - Unacceptable/impaired risk - non-performing	-	729	-	231	960
Commercial & agricultural mortgages and loans not impaired	-	3,870,965	-	344,992	4,215,957
Residential mortgages and personal loans not impaired	7,244,914	-	1,077,101	-	8,322,015
Loans not impaired	7,244,914	3,870,965	1,077,101	344,992	12,537,972
Loans specifically impaired	642	40,200	4,274	662	45,778
Sub Total	7,245,556	3,911,165	1,081,375	345,654	12,583,750
Accrued interest	11,084	12,591	11,529	2,998	38,202
Total	\$ 7,256,640	\$ 3,923,756	\$ 1,092,904	\$ 348,652	\$12,621,952

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:
 - Interest is 60 or more days in arrears. (30 days for term loans subject to annual payments)
 - 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 July 31, 2015

	Residential	Commercial	Consumer	Agricultural	Total
Past due up to 29 days	\$ 112,485	\$ 40,374	\$ 13,194	\$ 3,051	\$ 169,104
Past due 30 - 59 days	38,742	40,657	8,938	3,081	91,418
Past due 60 - 89 days	10,514	3,525	2,325	567	16,931
Past due over 90 days	13,856	65,103	3,664	2,088	84,711
Total	\$ 175,597	\$ 149,659	\$ 28,121	\$ 8,787	\$ 362,164

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
(Canadian \$ thousands)
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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 July 31, 2015

	Residential	Commercial	Consumer	Agricultural	Total
Past due up to 29 days	\$ 112,485	\$ 39,488	\$ 12,537	\$ 3,051	\$ 167,561
Past due 30 - 59 days	38,742	40,352	8,891	3,081	91,066
Past due 60 - 89 days	10,514	3,088	2,078	566	16,246
Past due over 90 days	13,214	26,531	341	1,427	41,513
Total	\$ 174,955	\$ 109,459	\$ 23,847	\$ 8,125	\$ 316,386

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 July 31 2015	As at October 31 2014
Loans by security:		
Secured by mortgage	\$ 9,515,973	\$ 9,214,232
Secured by other	2,414,783	2,596,072
Unsecured	691,196	697,283
Total	\$12,621,952	\$ 12,507,587

8. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

	As at July 31 2015	As at October 31 2014
Derivative Financial Assets		
Interest rate swaps and cap options	\$ 1,271	\$ -
Equity-linked options	\$ 3,914	\$ 5,013
Embedded purchase option	18,908	17,987
Total	\$ 24,093	\$ 23,000

Derivative Financial Liabilities		
Embedded derivatives	\$ 3,873	\$ 4,932
Total	\$ 3,873	\$ 4,932

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Notes to Interim Condensed Consolidated Financial Statements
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8. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Interest Rate Swaps and Interest Rate Cap Options

Interest rate swaps and interest rate cap options are used for asset/liability management purposes against changes in interest rates. They involve the exchange of interest cash flows between two parties on a specified notional principal.

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 renews annually 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 2016.

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.