

SERVUS CREDIT UNION LTD.

Interim Consolidated Financial Statements

Six Month Period Ended April 30, 2010

(unaudited)

SERVUS CREDIT UNION LTD.
Interim Consolidated Balance Sheet
(unaudited)

<i>(\$ thousands)</i>	Note	April 30, 2010	October 31, 2009
Assets			
Cash		\$ 180,149	\$ 175,487
Investments		878,231	833,375
Member loans		9,201,648	8,901,715
Property and equipment		212,545	211,355
Other assets		49,051	41,616
		\$ 10,521,624	\$ 10,163,548
Liabilities			
Member deposits		\$ 9,329,776	\$ 9,252,672
Term loans payable		266,196	13,186
Accounts payable and other liabilities		122,494	133,037
		9,718,466	9,398,895
Guarantees, commitments and contingent liabilities	3		
Member Equity			
Share capital		426,244	406,740
Retained earnings		376,914	357,913
		803,158	764,653
		\$ 10,521,624	\$ 10,163,548

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

SERVUS CREDIT UNION LTD.
Interim Consolidated Statement of Income and Comprehensive Income
(unaudited)

(\$ thousands)	Note	Three Months Ended April 30, 2010	Three Months Ended April 30, 2009	Six Months Ended April 30, 2010	Six Months Ended April 30, 2009
Interest Income					
Member loans		\$ 100,418	\$ 101,592	\$ 203,868	\$ 214,439
Investments		1,683	4,923	4,629	11,961
Total interest income		102,101	106,514	208,497	226,399
Interest Expense					
Member deposits		32,576	43,339	67,783	93,567
Term loans		765	1,006	1,013	2,036
Total interest expense		33,341	44,345	68,796	95,603
Net Interest Income					
		68,760	62,169	139,701	130,796
Provision for credit losses		1,817	3,116	3,545	5,282
Net interest income after provision for credit losses		66,943	59,053	136,156	125,514
Other Income					
		19,259	20,172	36,291	34,930
Net interest income and other income		86,202	79,225	172,447	160,444
Operating Expenses					
Personnel		39,358	32,146	72,384	64,730
General	2	12,165	13,197	26,615	24,470
Occupancy		6,178	4,089	8,904	7,809
Member security		4,799	4,295	9,089	7,801
Depreciation and amortization		3,709	3,349	7,542	6,694
Organization		1,372	1,088	2,083	1,679
Total operating expenses		67,581	58,164	126,617	113,183
Income before patronage allocation to members and income taxes		18,621	21,061	45,830	47,261
Patronage allocation to members	4	5,500	4,485	11,000	9,193
Income before income taxes		13,121	16,576	34,830	38,068
Income taxes		2,390	3,893	7,285	8,117
Operating net income		10,731	12,683	27,545	29,951
Extraordinary gain		-	-	-	7,349
Net income and comprehensive income		\$ 10,731	\$ 12,683	\$ 27,545	\$ 37,300

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

SERVUS CREDIT UNION LTD.
Interim Consolidated Statement of Member Equity
(unaudited)

<i>(\$ thousands)</i>	Note	Three Months Ended April 30, 2010	Three Months Ended April 30, 2009	Six Months Ended April 30, 2010	Six Months Ended April 30, 2009
Share Capital					
Balance, beginning period		\$ 410,192	\$ 383,894	\$ 406,740	\$ 381,615
Common Shares					
Balance, beginning of period		308,839	284,020	303,950	281,194
Issued and redeemed for cash, net		9,793	6,565	10,816	5,785
Provision for dividends distributable	4	3,867	3,697	7,733	7,303
Balance, end of period		322,499	294,282	322,499	294,282
Investment Shares					
Balance, beginning of period		101,353	99,874	102,790	100,421
Issued and redeemed for cash, net		850	(310)	(2,130)	(2,486)
Provision for dividends distributable	4	1,542	1,636	3,085	3,265
Balance, end of period		103,745	101,200	103,745	101,200
Share Capital, end of period		426,244	395,482	426,244	395,482
Retained Earnings					
Balance, beginning of period		370,454	333,285	357,913	312,797
Net income and comprehensive income		10,731	12,683	27,545	37,300
Provisions for dividends on share capital	4	(5,409)	(5,333)	(10,818)	(10,568)
Income tax recovery thereon		1,138	1,120	2,274	2,226
Balance, end of period		376,914	341,755	376,914	341,755
Member Equity, End of Period		\$ 803,158	\$ 737,237	\$ 803,158	\$ 737,237

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

SERVUS CREDIT UNION LTD.
Interim Consolidated Statement of Cash Flow
(unaudited)

(\$ thousands)	Note	Three Months Ended April 30, 2010	Three Months Ended April 30, 2009	Six Months Ended April 30, 2010	Six Months Ended April 30, 2009
Cash Flows From (Used in) Operating Activities					
Operating net income		\$ 10,731	\$ 12,683	\$ 27,545	\$ 29,951
Adjustments for:					
Depreciation and amortization		3,709	3,349	7,542	6,694
Provision for credit losses		1,817	3,116	3,545	5,282
Provision for patronage allocation to members		-	4,485	-	9,193
Realized loss on investments available for sale		-	354	-	447
Investment income from equity method investments		349	(642)	(2,685)	(1,340)
Gain on sale of property and equipment		(404)	-	(404)	(20)
Gain on sale of member loans		-	(3,769)	-	(3,769)
Loss on acquisition of Apex Credit Union Ltd.	2	-	-	1,550	-
Net change in other assets and accounts payable and other liabilities		40,619	9,868	(17,171)	(3,247)
Net change in accrued interest on member loans		773	1,092	(1,659)	2,773
Net change in accrued interest on member deposits		(27,605)	(10,501)	(27,330)	(20,496)
Net change in accrued interest on term loans		(27)	-	(2)	-
Net change in accrued interest on investments		169	(408)	494	1,537
		<u>30,131</u>	<u>19,627</u>	<u>(8,575)</u>	<u>27,005</u>
Cash Flows From (Used in) Investing Activities					
Additions to property and equipment		(1,114)	(203)	(7,247)	(11,707)
Proceeds on disposal of property and equipment		826	54	826	392
Member loans, net		(133,516)	(114,314)	(232,201)	(293,705)
Investments, net		11,177	1,399	(33,311)	15,994
Cash acquired from business combinations	2	-	-	355	-
		<u>(122,627)</u>	<u>(113,064)</u>	<u>(271,578)</u>	<u>(289,026)</u>
Cash Flows From (Used in) Financing Activities					
Advances of term loans payable		240,426	(15,000)	284,050	190,000
Repayment of term loans payable		(30,907)	(177,038)	(37,414)	(243,422)
Proceeds from sale of member loans		-	59,294	-	59,294
Member deposits		18,578	418,533	30,063	447,201
Repayment of obligation under capital lease		(63)	-	(123)	-
Shares, issued and redeemed, net		10,643	6,255	5,965	3,299
Income tax recovery on share capital		1,138	1,120	2,274	2,226
		<u>239,815</u>	<u>293,164</u>	<u>284,815</u>	<u>458,598</u>
Increase in Cash		147,319	199,727	4,662	196,577
Cash, beginning of period		<u>32,830</u>	<u>51,743</u>	<u>175,487</u>	<u>54,893</u>
Cash, End of Period		\$ 180,149	\$ 251,470	\$ 180,149	\$ 251,470
Supplementary cash flow information					
Interest paid during the period		\$ 60,973	\$ 54,846	\$ 96,128	\$ 116,099
Interest and dividends received during the period		103,392	102,684	204,647	217,212
Income taxes paid during the period		9,340	5,313	15,458	9,570

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

SERVUS CREDIT UNION LTD.
Notes to Interim Consolidated Financial Statements
For the period ended April 30, 2010
(unaudited)
(' \$000)

1. Basis of Presentation

Basis of Presentation

The unaudited interim Consolidated Financial Statements (the financial statements) of Servus Credit Union Ltd. (the Credit Union) have been prepared by management in accordance with Canadian generally accepted accounting principles (GAAP) on a going concern basis.

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income, expenses and disclosures at period end. Certain estimates, including allowance for credit losses, fair value of financial instruments, income taxes, accounting for securitizations, defined benefit pension plans, post retirement benefits, contingent liabilities, purchase price allocation, fair value of acquired assets and liabilities, the useful life of property, equipment, and intangible assets and accrued liabilities require management to make subjective or complex judgements. Accordingly, actual results could differ from those estimates.

These financial statements of the Credit Union should be read in conjunction with the consolidated financial statements of Servus Credit Union Ltd. for the year ended October 31, 2009 as set out in the 2009 Annual Report. These financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP), using the same accounting policies as set out in Note 3 to the financial statements of Servus Credit Union for the year ended October 31, 2009.

2. Business Combinations

On November 1, 2009, the Credit Union adopted three new accounting standards: Business Combinations (Section 1582), Consolidated Financial Statements (Section 1601) and Non-Controlling Interests (Section 1602).

Business combinations are accounted for using the acquisition method. The acquisition method requires that the acquirer recognizes, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree, at the acquisition date. Acquisition costs directly attributable to the acquisition are expensed in the period. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at fair values at the date of the acquisition, irrespective of the extent of any non-controlling interest.

On November 1, 2009, the Credit Union acquired 100% of Apex Credit Union Ltd. Apex was in the business of personal and commercial banking with four locations serving about 5,000 members in Calgary, Alberta.

The Credit Union exchanged on a one-to-one basis shares with par value of \$2,721. The fair value of the identifiable assets and liabilities of Apex as at the date of the acquisition has been determined on a preliminary basis:

SERVUS CREDIT UNION LTD.
Notes to Interim Consolidated Financial Statements
For the period ended April 30, 2010
(unaudited)
(' \$000)

2. Business Combinations (cont.)

	Fair value recognized on acquisition
Identifiable assets acquired and liabilities assumed	
Cash	\$ 355
Investments	9,354
Member loans	69,618
Property and equipment	1,907
Other assets	1,198
Current account overdraft	(6,376)
Member deposits	(74,371)
Other liabilities	(514)
Total net identifiable assets and liabilities	\$ 1,171

The value of assets acquired and liabilities assumed has been valued at the acquisition date, using fair values. No goodwill was recognized. The Credit Union recorded a loss of \$1,550 in the Operating expenses general on the Consolidated Statement of Income and Comprehensive Income. The loss is due to the par value of shares given in excess of the fair value of net assets received.

3. Guarantees, Commitments and Contingent Liabilities

As at April 30, 2010, the Credit Union has \$1,975,073 (October 31, 2009 - \$1,935,997) in standby letters of credit, letters of guarantee and commitments to extend credit on behalf of members.

Retail Banking System Agreements

The Credit Union is currently operating on three different banking systems. In March 2010, management selected a new banking system which will be implemented over the next 36 months. Management is currently in the planning and negotiation phase of the project. During the new banking system implementation project and as a result of the review of the current retail banking system agreements, there could be costs between \$nil to \$5,896. As of April 30, 2010, the Credit Union has not recorded any of those costs into its financial statements.

4. Patronage, Common Share and Investment Share Allocation to Members

Patronage, and common and investment share dividends are accrued based on an estimate of amounts that are paid annually at the discretion of the Board of Directors.

5. Comparative Figures

Certain comparative figures have been reclassified to conform to the current period's interim consolidated financial statement presentation.