

SERVUS CREDIT UNION LTD.

Interim Consolidated Financial Statements

For The Three Months Ended

January 31, 2011

(unaudited)

(As restated, see Notes 8 and 11)

Servus Credit Union Ltd
Interim Consolidated Balance Sheet
(unaudited)

<i>(\$ thousands)</i>	Note	January 31, 2011	October 31, 2010
		Restated (Note 11)	
Assets			
Cash		\$ 29,561	\$ 144,231
Investments		1,159,827	1,005,724
Member loans	2,3	9,465,004	9,367,391
Foreclosed assets	2	6,787	7,326
Property and equipment	4	197,957	198,322
Property and land available for sale	4	9,352	9,352
Intangible assets	5	14,885	13,112
Other assets		42,632	41,290
		\$ 10,926,005	\$ 10,786,748
Liabilities			
Bank indebtedness		\$ 80,458	\$ -
Member deposits		9,918,001	9,831,908
Accounts payable and other liabilities		83,555	122,645
		10,082,014	9,954,553
Guarantees and commitments	7		
Member Equity			
Share capital		432,827	439,967
Retained earnings		411,164	392,228
		843,991	832,195
		\$ 10,926,005	\$ 10,786,748

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 January 31, 2011	Three Months Ended January 31, 2010
Interest Income			
Member loans		\$ 110,851	\$ 103,450
Investment		2,223	821
Total interest income		<u>113,074</u>	<u>104,271</u>
Interest Expense			
Member deposits		37,584	35,207
Term loans		60	248
Total interest expense		<u>37,644</u>	<u>35,455</u>
Net Interest Income			
Provision for credit losses	3	75,430	68,816
		<u>1,073</u>	<u>1,728</u>
Net interest income after provision for credit losses		74,357	67,088
Other Income			
Net interest income and other income		<u>20,046</u>	<u>19,157</u>
		<u>94,403</u>	<u>86,245</u>
Operating Expenses			
Personnel		36,595	33,026
General		14,476	12,557
Member security		4,800	4,490
Occupancy		4,405	4,419
Depreciation	4	3,778	3,715
Organization		1,128	711
Amortization	5	558	118
Total operating expenses		<u>65,740</u>	<u>59,036</u>
Income before patronage allocation to members and income taxes			
		28,663	27,209
Patronage allocation to members	8	<u>6,250</u>	<u>5,500</u>
Income before income taxes			
		22,413	21,709
Income taxes		<u>3,477</u>	<u>4,895</u>
Net income			
		<u>18,936</u>	<u>16,814</u>
Other comprehensive income			
Other comprehensive income		-	-
Net income and comprehensive income			
		<u>\$ 18,936</u>	<u>\$ 16,814</u>

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 January 31, 2011 Restated (Note 11)	Three Months Ended January 31, 2010 Restated (Note 11)
Share Capital			
Common Shares			
Balance, beginning of period		\$ 334,745	\$ 303,950
Issued and redeemed for cash, net		<u>(5,523)</u>	<u>1,023</u>
Balance, end of period		<u>329,222</u>	<u>304,973</u>
Investment Shares			
Balance, beginning of period		105,222	102,790
Issued and redeemed for cash, net		<u>(1,617)</u>	<u>(2,980)</u>
Balance, end of period		<u>103,605</u>	<u>99,810</u>
Share Capital, end of period		<u>432,827</u>	<u>404,783</u>
Retained Earnings			
Balance, beginning of period		392,228	357,913
Net income		<u>18,936</u>	<u>16,814</u>
Balance, end of period		<u>411,164</u>	<u>374,727</u>
Member Equity, end of period		<u>\$ 843,991</u>	<u>\$ 779,510</u>

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

Servus Credit Union Ltd
Interim Consolidated Statement of Cash Flows
(unaudited)

(\$ thousands)	Note	Three Months Ended January 31, 2011 <u>Restated (Note 11)</u>	Three Months Ended January 31, 2010 <u>Restated (Note 11)</u>
Cash Flows From (Used in) Operating Activities			
Net income		\$ 18,936	\$ 16,814
Adjustments for:			
Depreciation		3,778	3,715
Amortization		558	118
Provision for credit losses		1,073	1,728
Investment income from equity method investments		(2,837)	(3,034)
Loss on acquisition of Apex Credit Union Ltd.		-	1,550
Net change in other assets and accounts payable and other liabilities		(40,370)	(59,375)
Net change in accrued interest on member loans		1,270	(2,432)
Net change in accrued interest on member deposits		5,407	275
Net change in accrued interest on term loans payable		-	25
Net change in accrued interest on investments		(596)	325
		<u>(12,781)</u>	<u>(40,291)</u>
Cash Flows From (Used in) Investing Activities			
Additions to intangible assets		(2,331)	(77)
Additions to property and equipment		(3,411)	(6,056)
Additions to foreclosed assets		539	-
Member loans, net		(99,956)	(98,685)
Investments, net		(150,670)	(44,488)
Cash acquired from business combinations	9	-	355
		<u>(255,829)</u>	<u>(148,951)</u>
Cash Flows From (Used in) Financing Activities			
Advances of term loans payable		-	43,624
Repayment of term loans payable		-	(6,507)
Member deposits		80,686	11,485
Repayment of obligation under capital lease		(64)	(60)
Shares, issued and redeemed, net		(7,140)	(1,957)
		<u>73,482</u>	<u>46,585</u>
(Decrease) Increase in Cash		(195,128)	(142,657)
Cash, beginning of period		144,231	175,487
Cash, End of Period		\$ (50,897)	\$ 32,830
Cash is comprised of:			
Cash		29,561	32,830
Bank indebtedness		(80,458)	-
		<u>\$ (50,897)</u>	<u>\$ 32,830</u>
Supplementary cash flow information			
Interest paid during the period		\$ 32,237	\$ 35,155
Interest and dividends received during the period		113,748	101,255
Income taxes paid during the period		3,477	6,118

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

Servus Credit Union Ltd
Notes to the Interim Consolidated Financial Statements
For the three months ended January 31, 2011
(unaudited)

1. 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, accrued liabilities, the useful life of property, equipment and intangible assets 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 audited Consolidated Financial Statements of Servus Credit Union Ltd. for the year ended October 31, 2010 as set out in the 2010 Annual Report. These financial statements have been prepared in accordance with GAAP, using the same accounting policies as set out in Note 3 Significant Accounting Policies to the audited Consolidated Financial Statements of Servus Credit Union for the year ended October 31, 2010.

Servus Credit Union Ltd
Notes to the Interim Consolidated Financial Statements
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2. Member Loans, Impaired Loans and Foreclosed Assets

As at January 31, 2011

(\$ thousands)	Allowance for Credit Losses			Member Loans Net Amount	Gross Impaired Member Loans
	Member Loans Gross Amount	Specific	General		
Residential mortgages	\$ 5,371,983	\$ 672	\$ 639	\$ 5,370,672	\$ 39,422
Commercial mortgages and loans	2,852,257	7,624	4,285	2,840,348	44,754
Consumer loans	958,019	4,891	4,687	948,441	11,473
Agricultural mortgages and loans	273,894	23	201	273,670	3,443
Sub-total	9,456,153	13,210	9,812	9,433,131	99,092
Accrued interest	31,873	-	-	31,873	-
Total	\$ 9,488,026	\$ 13,210	\$ 9,812	\$ 9,465,004	\$ 99,092

As at October 31, 2010

(\$ thousands)	Allowance for Credit Losses			Member Loans Net Amount	Gross Impaired Member Loans
	Member Loans Gross Amount	Specific	General		
Residential mortgages	\$ 5,335,956	\$ 570	\$ 754	\$ 5,334,632	\$ 39,271
Commercial mortgages and loans	2,792,662	7,083	4,616	2,780,963	41,485
Consumer loans	965,164	4,630	5,096	955,438	14,647
Agricultural mortgages and loans	263,651	23	413	263,215	4,509
Sub-total	9,357,433	12,306	10,879	9,334,248	99,912
Accrued interest	33,143	-	-	33,143	-
Total	\$ 9,390,576	\$ 12,306	\$ 10,879	\$ 9,367,391	\$ 99,912

The total amount of loans delinquent over 30 days but not impaired for the three months ended January 31, 2011 is \$188,872 (2010 - \$123,651).

(\$ thousands)	As of 31-Jan-11	As of 31-Oct-10
Foreclosed assets - gross	\$ 9,036	\$ 9,575
Allowance for impairment	(2,249)	(2,249)
Foreclosed assets - net	\$ 6,787	\$ 7,326

The impairment of the foreclosed assets is recognized in the Provision for credit losses in the Consolidated Statement of Income and Comprehensive Income. There was no impairment loss in the three months ended January 31, 2011.

Servus Credit Union Ltd
Notes to the Interim Consolidated Financial Statements
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(unaudited)

3. Allowance for Credit Losses

(\$ thousands)	As of 31-Jan-11	As of 31-Jan-10
Balance, beginning of period	\$ 23,185	\$ 22,293
Loans written off	(1,490)	(1,250)
Recoveries of amounts written off in prior years	254	169
Provisions for credit losses	1,073	1,728
Balance, end of period	<u>\$ 23,022</u>	<u>\$ 22,940</u>

4. Property and Equipment

As at January 31, 2011

(\$ thousands)	Cost	Accumulated Depreciation	Net
Land	\$ 32,004	\$ -	\$ 32,004
Buildings	145,633	29,457	116,176
Furniture, office equipment and vehicles	49,695	31,771	17,924
Leasehold improvements	40,299	17,622	22,677
Computer equipment	25,711	18,626	7,085
Equipment under capital lease	1,269	719	550
Airplane	975	99	876
Real estate investment properties	798	133	665
Total	<u>\$ 296,384</u>	<u>\$ 98,427</u>	<u>\$ 197,957</u>

As at October 31, 2010

(\$ thousands)	Cost	Accumulated Depreciation	Net
Land	\$ 32,004	\$ -	\$ 32,004
Buildings	143,858	28,247	115,611
Furniture, office equipment and vehicles	49,064	31,207	17,857
Leasehold improvements	40,208	16,854	23,354
Computer equipment	25,291	17,988	7,303
Equipment under capital lease	1,269	656	613
Airplane	975	67	908
Real estate investment properties	798	126	672
Total	<u>\$ 293,467</u>	<u>\$ 95,145</u>	<u>\$ 198,322</u>

Depreciation expense recorded in the Consolidated Statement of Income and Comprehensive Income for the three months ended January 31, 2011 for property and equipment was \$3,778 (2010 - \$3,715).

At January 31, 2011, the Credit Union has a total of \$9,352 (2010 - \$9,352) in property and land available for sale. It is expected that these assets will be sold during 2011.

Servus Credit Union Ltd
Notes to the Interim Consolidated Financial Statements
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5. Intangible Assets

As at January 31, 2011

(\$ thousands)	Cost	Accumulated Amortization	Net
Computer software	\$ 28,425	24,301	\$ 4,124
Computer software under development	10,761	-	10,761
	\$ 39,186	\$ 24,301	\$ 14,885

As at October 31, 2010

(\$ thousands)	Cost	Accumulated Amortization	Net
Computer software	\$ 26,362	\$ 23,653	\$ 2,709
Computer software under development	10,403	-	10,403
	\$ 36,765	\$ 23,653	\$ 13,112

Amortization expense recorded in the Consolidated Statement of Income and Comprehensive Income for the three months ended January 31, 2011 for intangible assets was \$558 (2010 - \$118).

6. Credit Facility

During the three-month period, the Credit Union has entered into a credit facility with Caisse Centrale Desjardins ("CCD"). The facility is a 364 day revolving credit facility available in Canadian Dollars renewable annually, with a maximum credit available of \$100,000.

The loans may be structured as either due on demand or repayable for periods of one month or greater for each advance. Interest is calculated at CCD prime rate or CCD cost of funds depending on facility and duration chosen as determined from time to time.

Borrowings are secured by eligible residential mortgages and by a debenture in favour of CCD, creating a floating charge over eligible residential mortgages of the Credit Union.

As of January 31, 2011, the Credit Union has \$nil in outstanding loans payable and line of credit with CCD.

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7. Guarantees and Commitments

As of January 31, 2011, the Credit Union had \$2,044,412 (October 31, 2010 - \$2,056,217) in standby letters of credit, letters of guarantee and commitments to extend credit on behalf of members.

8. Patronage Allocation to Members and Dividends (Restated, Note 11)

Patronage Allocation to Members is accrued based on an estimate of amounts that are paid annually at the discretion of the Board of Directors. Dividends are recorded when declared by the Board of Directors.

9. Business Combinations

In November and December, 2010, the Board of Directors approved the acquisition of 100% interest of three credit unions. The Credit Unions acquired were: Royglenor Savings and Credit Union Ltd., Strathfiner Credit Union Ltd. and Industrial Savings and Credit Union Ltd. These credit unions were in the business of personal and commercial banking serving about 1,900 members.

The Credit Union paid and received cash proceeds of \$8,350 and \$12,000 respectively for the acquisition of certain assets and liabilities of the three credit unions. The fair value, which has been determined to approximate book value, of the identifiable assets and liabilities as at the date of the acquisition is as follows:

	Three months Ended 31-Jan-11
(\$ thousands)	
Cash proceeds paid	\$ (8,350)
Cash proceeds received	12,000
Net cash proceeds received	\$ 3,650
Identifiable assets acquired and liabilities assumed	
Investment	\$ 500
Member loans	7,500
Other assets	350
Member deposits	(11,900)
Common shares	(100)
Net liabilities acquired	\$ (3,650)
Goodwill	\$ -

10. Comparative Figures

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

Servus Credit Union Ltd
Notes to the Interim Consolidated Financial Statements
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(unaudited)

11. Restatement

The Interim Consolidated financial statements for the three months ended January 31, 2011 originally issued on April 4, 2011 were withdrawn to correct the following error.

Restatement Due of Member Share Dividends

It was determined that the Credit Union erroneously recorded common and investment share dividends in its interim consolidated financials for the three months ended January 31, 2011, as dividends were recorded before they were declared and approved by the Board of Directors.

As a result of this error, for the three months ended January 31, 2011 common shares and investment shares were overstated by \$3,649 (2010: \$3,866) and \$1,607 (2010: \$1,543) respectively. In addition, retained earnings were understated by \$4,175 (2010: \$4,273), net of the income tax recovery of \$1,081 (2010: \$1,136). Other assets as at January 31, 2011 were understated by \$1,081 relating to the income tax recovery.

The interim consolidated statement of cash flows for the three months ended January 31, 2011 and 2010 was adjusted to reflect the correction of the error described above.

There was no impact of this error on the October 31, 2010 consolidated financial statements or the January 31, 2011 interim consolidated statement of income and comprehensive income.

Summary of Restatement

The following tables summarize the impact of the restatement as a result of erroneously recorded common and investment share dividends on the interim consolidated balance sheet as at January 31, 2011, the interim consolidated statement of member equity for the three months ended January 31, 2011, and the interim consolidated statement of member equity for the three months ended January 31, 2010.

Servus Credit Union Ltd
Notes to the Interim Consolidated Financial Statements
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(unaudited)

11. Restatement (continued)

Consolidated Balance Sheet as at January 31, 2011

(\$ thousands)	Three Months Ended 31-Jan-11 Originally Published	Restatement Due to Member Share Dividends	Three Months Ended 31-Jan-11 Restated
Assets			
Cash	\$ 29,561	-	\$ 29,561
Investments	1,159,827	-	1,159,827
Member loans	9,465,004	-	9,465,004
Foreclosed assets	6,787	-	6,787
Property and equipment	197,957	-	197,957
Property and land available for sale	9,352	-	9,352
Intangible assets	14,885	-	14,885
Other assets	43,713	(1,081)	42,632
	<u>\$ 10,927,086</u>	<u>\$ (1,081)</u>	<u>\$ 10,926,005</u>
Liabilities			
Bank indebtedness	\$ 80,458	-	\$ 80,458
Member deposits	9,918,001	-	9,918,001
Accounts payable and other liabilities	83,555	-	83,555
	<u>10,082,014</u>	<u>-</u>	<u>10,082,014</u>
Guarantees and commitments			
Member Equity			
Share capital	438,083	(5,256)	432,827
Retained Earnings	406,989	4,175	411,164
	<u>845,072</u>	<u>(1,081)</u>	<u>843,991</u>
	<u>\$ 10,927,086</u>	<u>\$ (1,081)</u>	<u>\$ 10,926,005</u>

Servus Credit Union Ltd
Notes to the Interim Consolidated Financial Statements
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11. Restatement (continued)

Consolidated Statement of Member Equity for the three months ended January 31, 2011

(\$ thousands)	Three Months Ended 31-Jan-11 Originally Published	Restatement Due to Member Share Dividends	Three Months Ended 31-Jan-11 Restated
Share Capital			
Common Shares			
Balance, beginning period	\$ 334,745	-	\$ 334,745
Issued and redeemed for cash, net	(5,523)	-	(5,523)
Provision for dividends distributable	3,649	(3,649)	-
Balance, ending period	<u>332,871</u>	<u>(3,649)</u>	<u>329,222</u>
Investment Shares			
Balance, beginning period	105,222	-	105,222
Issued and redeemed for cash, net	(1,617)	-	(1,617)
Provision for dividends distributable	1,607	(1,607)	-
Balance, ending period	<u>105,212</u>	<u>(1,607)</u>	<u>103,605</u>
Retained Earnings			
Balance, beginning period	392,228	-	392,228
Net income and comprehensive income	18,936	-	18,936
Provision for dividends on share capital	(5,256)	5,256	-
Income tax recovery thereon	1,081	(1,081)	-
Balance, ending period	<u>406,989</u>	<u>4,175</u>	<u>411,164</u>
Member Equity, end of period	<u>\$ 845,072</u>	<u>\$ (1,081)</u>	<u>\$ 843,991</u>

Servus Credit Union Ltd
Notes to the Interim Consolidated Financial Statements
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11. Restatement (continued)

Consolidated Statement of Member Equity for the three months ended January 31, 2010

(\$ thousands)	Three Months Ended 31-Jan-10 Originally Published	Restatement Due to Member Share Dividends	Three Months Ended 31-Jan-10 Restated
Share Capital			
Common Shares			
Balance, beginning period	\$ 303,950	-	\$ 303,950
Issued and redeemed for cash, net	1,023	-	1,023
Provision for dividends distributable	3,866	(3,866)	-
Balance, ending period	<u>308,839</u>	<u>(3,866)</u>	<u>304,973</u>
Investment Shares			
Balance, beginning period	102,790	-	102,790
Issued and redeemed for cash, net	(2,980)	-	(2,980)
Provision for dividends distributable	1,543	(1,543)	-
Balance, ending period	<u>101,353</u>	<u>(1,543)</u>	<u>99,810</u>
Retained Earnings			
Balance, beginning period	357,913		357,913
Net income and comprehensive income	16,814	-	16,814
Provision for dividends on share capital	(5,409)	5,409	-
Income tax recovery thereon	1,136	(1,136)	-
Balance, ending period	<u>370,454</u>	<u>4,273</u>	<u>374,727</u>
Member Equity, end of period	<u>\$ 780,646</u>	<u>\$ (1,136)</u>	<u>\$ 779,510</u>