

**SERVUS CREDIT UNION LTD.**

**Interim Consolidated Financial Statements**

**For The Six Months Ended**

**April 30, 2011**

**(unaudited)**

**(As restated, see Note 11)**

Servus Credit Union Ltd  
Interim Consolidated Balance Sheet  
(unaudited)

<i>(\$ thousands)</i>	Note	<u>April 30, 2011</u>	<u>October 31, 2010</u>
<b>Assets</b>			
Cash		\$ 146,979	\$ 144,231
Investments		1,014,884	1,005,724
Member loans	2,3	9,545,243	9,367,391
Foreclosed assets	2	7,780	7,326
Property and equipment	4	194,829	198,322
Property and land available for sale	4	9,814	9,352
Intangible assets	5	16,910	13,112
Other assets		43,237	41,290
		<u>\$ 10,979,676</u>	<u>\$ 10,786,748</u>
<b>Liabilities</b>			
Member deposits		\$ 10,020,686	\$ 9,831,908
Accounts payable and other liabilities		102,112	122,645
		<u>10,122,798</u>	<u>9,954,553</u>
Guarantees and commitments	7		
<b>Member Equity</b>			
Share capital		438,835	439,967
Retained earnings		418,043	392,228
		<u>856,878</u>	<u>832,195</u>
		<u>\$ 10,979,676</u>	<u>\$ 10,786,748</u>

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

Servus Credit Union Ltd  
Interim Consolidated Statement of Income and Comprehensive Income  
(unaudited)

(\$ thousands)	Note	<b>Three Months Ended April 30, 2011</b>	Three Months Ended April 30, 2010	<b>Six Months Ended April 30, 2011</b>	Six Months Ended April 30, 2010
<b>Interest Income</b>					
Member loans		\$ 107,570	\$ 100,418	\$ 218,421	\$ 203,868
Investments		2,349	1,683	4,572	4,629
Total interest income		<u>109,919</u>	<u>102,101</u>	<u>222,993</u>	<u>208,497</u>
<b>Interest Expense</b>					
Member deposits		36,854	32,576	74,438	67,783
Term loans		79	765	139	1,013
Total interest expense		<u>36,933</u>	<u>33,341</u>	<u>74,577</u>	<u>68,796</u>
<b>Net Interest Income</b>					
Provision for credit losses	3	72,986	68,760	148,416	139,701
		<u>8,944</u>	<u>1,817</u>	<u>10,017</u>	<u>3,545</u>
Net interest income after provision for credit losses		<u>64,042</u>	66,943	<u>138,399</u>	136,156
<b>Other Income</b>					
		<u>20,709</u>	19,259	<u>40,755</u>	36,291
Net interest income and other income		<u>84,751</u>	<u>86,202</u>	<u>179,154</u>	<u>172,447</u>
<b>Operating Expenses</b>					
Personnel		37,502	39,358	74,097	72,384
General		16,407	14,058	30,883	26,615
Occupancy		4,676	4,485	9,081	8,904
Member security		4,281	4,599	9,081	9,089
Depreciation	4	3,460	3,496	7,238	7,211
Organization		1,168	1,372	2,296	2,083
Amortization	5	743	213	1,301	331
Total operating expenses		<u>68,237</u>	<u>67,581</u>	<u>133,977</u>	<u>126,617</u>
Income before patronage allocation to members and income taxes					
		16,514	18,621	45,177	45,830
Patronage allocation to members	8	<u>6,250</u>	<u>5,500</u>	<u>12,500</u>	<u>11,000</u>
Income before income taxes		<u>10,264</u>	13,121	<u>32,677</u>	34,830
Income taxes		<u>3,385</u>	<u>2,390</u>	<u>6,862</u>	<u>7,285</u>
Net income		<u>6,879</u>	10,731	<u>25,815</u>	27,545
<b>Other comprehensive income</b>					
Other comprehensive income		-	-	-	-
Net income and comprehensive income		<u>\$ 6,879</u>	<u>\$ 10,731</u>	<u>\$ 25,815</u>	<u>\$ 27,545</u>

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

Servus Credit Union Ltd  
Interim Consolidated Statement of Member Equity  
(unaudited)

<i>(\$ thousands)</i>	<b>Three Months Ended April 30, 2011</b>	Three Months Ended April 30, 2010 (Restated Note 11)	<b>Six Months Ended April 30, 2011</b>	Six Months Ended April 30, 2010 (Restated Note 11)
<b>Share Capital</b>				
<b>Common Shares</b>				
Balance, beginning of period	329,222	\$ 304,973	\$ 334,745	\$ 303,950
Issued and redeemed for cash, net	6,701	9,793	1,178	10,816
Balance, end of period	<u>335,923</u>	<u>314,766</u>	<u>335,923</u>	<u>314,766</u>
<b>Investment Shares</b>				
Balance, beginning of period	103,605	99,810	105,222	102,790
Issued and redeemed for cash, net	(693)	850	(2,310)	(2,130)
Balance, end of period	<u>102,912</u>	<u>100,660</u>	<u>102,912</u>	<u>100,660</u>
<b>Share Capital, end of period</b>	<u>438,835</u>	<u>415,426</u>	<u>438,835</u>	<u>415,426</u>
<b>Retained Earnings</b>				
Balance, beginning of period	411,164	374,727	392,228	357,913
Net income and comprehensive income	6,879	10,731	25,815	27,545
Balance, end of period	<u>418,043</u>	<u>385,458</u>	<u>418,043</u>	<u>385,458</u>
<b>Member Equity, end of Period</b>	<u>\$ 856,878</u>	<u>\$ 800,884</u>	<u>\$ 856,878</u>	<u>\$ 800,884</u>

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

(\$ thousands)	<b>Three Months Ended April 30, 2011</b>	Three Months Ended April 30, 2010 (Restated Note 11)	<b>Six Months Ended April 30, 2011</b>	Six Months Ended April 30, 2010 (Restated Note 11)
<b>Cash Flows From (Used in) Operating Activities</b>				
Net income	\$ 6,879	\$ 10,731	\$ 25,815	\$ 27,545
Adjustments for:				
Depreciation	3,460	3,496	7,238	7,211
Amortization	743	213	1,301	331
Provision for credit losses	8,944	1,817	10,017	3,545
Investment income from equity method investments	(1,466)	349	(4,303)	(2,685)
Gain on sale of property and equipment	1,067	(404)	1,067	(404)
Loss on acquisition of Apex Credit Union Ltd	-	-	-	1,550
Net change in other assets and accounts payable and other liabilities	18,018	40,619	(22,352)	(15,094)
Net change in accrued interest on member loans	812	773	2,082	(1,659)
Net change in accrued interest on member deposits	(2,276)	(26,487)	3,131	(29,874)
Net change in accrued interest on term loans	-	(27)	-	(2)
Net change in accrued interest on investments	266	169	(330)	494
	<u>36,447</u>	<u>31,249</u>	<u>23,666</u>	<u>(9,042)</u>
<b>Cash Flows From (Used in) Investing Activities</b>				
Additions to intangible assets	(2,768)	(616)	(5,099)	(1,914)
Additions to property and equipment	(2,025)	(498)	(5,436)	(5,333)
Proceeds on disposal of property and equipment	162	-	162	-
Additions to foreclosed assets	(19)	826	(558)	826
Member loans, net	(90,969)	(133,516)	(189,847)	(232,201)
Investments, net	146,143	11,177	(4,527)	(33,311)
Cash acquired from business combinations	-	-	-	355
	<u>50,524</u>	<u>(122,627)</u>	<u>(205,305)</u>	<u>(271,578)</u>
<b>Cash Flows From (Used in) Financing Activities</b>				
Advances of term loans payable	-	240,426	-	284,050
Repayment of term loans payable	-	(30,907)	-	(37,414)
Member deposits	104,961	18,578	185,647	30,063
Repayment of obligation under capital lease	(64)	(63)	(128)	(123)
Shares, issued and redeemed, net	6,008	10,663	(1,132)	8,706
	<u>110,905</u>	<u>238,697</u>	<u>184,387</u>	<u>285,282</u>
<b>Increase in Cash</b>	<b>197,876</b>	<b>147,319</b>	<b>2,748</b>	<b>4,662</b>
Cash, beginning of period	(50,897)	32,830	144,231	175,487
<b>Cash, End of Period</b>	<b>\$ 146,979</b>	<b>\$ 180,149</b>	<b>\$ 146,979</b>	<b>\$ 180,149</b>
Supplementary cash flow information				
Interest paid during the period	\$ 39,209	\$ 60,973	\$ 71,446	\$ 96,128
Interest and dividends received during the period	110,997	103,392	224,745	204,647
Income taxes paid during the period	1,093	9,340	4,570	15,458

Servus Credit Union Ltd  
Notes to the Interim Consolidated Financial Statements  
For the six months ended April 30, 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  
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**2. Member Loans, Impaired Loans and Foreclosed Assets**

As at April 30, 2011

(\$ thousands)	Allowance for Credit Losses			Member Loans Net Amount	Gross Impaired Member Loans
	Member Loans Gross Amount	Specific	General		
Residential mortgages	\$ 5,449,537	\$ 689	\$ 608	\$ 5,448,240	\$ 39,391
Commercial mortgages and loans	2,853,036	18,949	643	2,833,444	32,759
Consumer loans	977,378	4,996	4,470	967,912	11,257
Agricultural mortgages and loans	264,845	99	160	264,586	3,603
Sub-total	9,544,796	24,733	5,881	9,514,182	87,010
Accrued interest	31,061	-	-	31,061	-
<b>Total</b>	<b>\$ 9,575,857</b>	<b>\$ 24,733</b>	<b>\$ 5,881</b>	<b>\$ 9,545,243</b>	<b>\$ 87,010</b>

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	\$ 5,357,081	\$ 570	\$ 754	\$ 5,355,757	\$ 39,271
Commercial mortgages and loans	2,771,537	7,083	4,616	2,759,838	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	-
<b>Total</b>	<b>\$ 9,390,576</b>	<b>\$ 12,306</b>	<b>\$ 10,879</b>	<b>\$ 9,367,391</b>	<b>\$ 99,912</b>

The total amount of loans delinquent over 30 days but not impaired for the three months ended April 30, 2011 is \$76,725 (2010 - \$123,651).

The impairment of the foreclosed assets is recognized in the Provision for credit losses in the Interim Consolidated Statement of Income and Comprehensive Income.

(\$ thousands)	As at 30-Apr-11	As at 31-Oct-10
	Foreclosed assets - gross	\$ 10,133
Allowance for impairment	(2,353)	(2,249)
<b>Foreclosed assets - net</b>	<b>\$ 7,780</b>	<b>\$ 7,326</b>

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**3. Allowance for Credit Losses**

(\$ thousands)	<b>As at 30-Apr-11</b>	<b>As at 30-Apr-10</b>
Balance, beginning of period	\$ 23,185	\$ 22,293
Loans written off	(3,133)	(2,854)
Recoveries of amounts written off in prior years	545	343
Provisions for credit losses	10,017	3,545
Balance, end of period	<b>\$ 30,614</b>	<b>\$ 23,327</b>

**4. Property and Equipment**

**As at April 30, 2011**

(\$ thousands)	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net</b>
Land	\$ 30,506	\$ -	30,506
Buildings	154,603	31,867	122,736
Furniture, office equipment and vehicles	50,502	32,710	17,792
Leasehold improvements	31,836	16,971	14,865
Computer equipment	26,427	19,302	7,125
Equipment under capital lease	1,269	783	486
Airplane	975	136	839
Real estate investment properties	596	116	480
Total	<b>\$ 296,714</b>	<b>\$ 101,885</b>	<b>\$ 194,829</b>

As at October 31, 2010

(\$ thousands)	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net</b>
Land	\$ 30,968	\$ -	\$ 30,968
Buildings	152,530	29,512	123,018
Furniture, office equipment and vehicles	49,028	31,201	17,827
Leasehold improvements	32,572	15,589	16,983
Computer equipment	25,327	17,994	7,333
Equipment under capital lease	1,269	656	613
Airplane	975	67	908
Real estate investment properties	798	126	672
Total	<b>\$ 293,467</b>	<b>\$ 95,145</b>	<b>\$ 198,322</b>

Depreciation expense recorded in the Consolidated Statement of Income and Comprehensive Income for the three months and six months ended April 30, 2011 for property and equipment was \$3,460 and \$7,238) (2010 - \$3,496 and \$7,211) respectively.

For the three and six months ended April 30, 2011, the Credit Union has recorded an impairment of \$1,036 (2010: \$nil) which has been recorded in Operating expenses general.

At April 30, 2011, the Credit Union has a total of \$9,814 (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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(unaudited)

**5. Intangible Assets**

**As at April 30, 2011**

(\$ thousands)	Cost	Accumulated Amortization	Net
Computer software	\$ 28,491	24,954	\$ 3,537
Computer software under development	13,373	-	13,373
	<b>\$ 41,864</b>	<b>\$ 24,954</b>	<b>\$ 16,910</b>

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
	<b>\$ 36,765</b>	<b>\$ 23,653</b>	<b>\$ 13,112</b>

Amortization expense recorded in the Interim Consolidated Statement of Income and Comprehensive Income for the three months and six months ended April 30, 2011 for intangible assets was \$743 and \$1,301(2010 - \$213 and \$331) respectively.

**6. Credit Facility**

During six-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 April 30, 2011, the Credit Union has \$nil in outstanding loans payable and line of credit with CCD.

**7. Guarantees and Commitments**

As at April 30, 2011, the Credit Union had \$2,046,465 (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.

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**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:

	Six months Ended As at 30-Apr-11
(\$ thousands)	
Cash proceeds paid	\$ (8,350)
Cash proceeds received	12,000
Net cash proceeds received	<u>\$ 3,650</u>
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	<u>\$ (3,650)</u>
Goodwill	<u>\$ -</u>

**10. Comparative Figures**

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

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

**11. Restatement**

**Restatement Due to Share Dividend**

It was determined that the Credit Union erroneously recorded common and investment share dividends in its interim consolidated financials for the six months ended April 30, 2010, as dividends were recorded before they were declared by the Board of Directors.

As a result of this error, for the three months and six months ended April 30, 2010 common shares and investment shares were overstated by \$3,867 (six months: \$7,733) and \$1,542 (six months: \$3,085) respectively. In addition, retained earnings were understated by \$8,544 (six months: \$8,544), net of the income tax recovery of \$1,138 (six months: \$2,274). Other assets as at April 30, 2010 were understated by \$2,274 relating to the income tax recovery.

The interim consolidated statement of cash flows for the three months and six months ended April 30, 2010 was adjusted to reflect the correction of the error described above.

There was no impact of this error on the interim consolidated financial statements for the six months ended April 30, 2011, the October 31, 2010 consolidated balance sheet or on the three months and six months ended April 30, 2010 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 three months and six months ended April 30, 2010 of the interim consolidated statement of member equity.

Servus Credit Union Ltd  
Notes to the Interim Consolidated Financial Statements  
For the six months ended April 30, 2011  
(unaudited)

**11. Restatement (continued)**

**Consolidated Statement of Member Equity for the three months ended April 30, 2010**

(\$ thousands)	<b>Three Months Ended 30-Apr-10 Originally Published</b>	<b>Restatement Due to Member Share dividend</b>	<b>Three Months Ended 30-Apr-10 Restated</b>
<b>Common Shares</b>			
Balance, beginning period	\$ 308,839	(3,866)	\$ 304,973
Issued and redeemed for cash, net	9,793	-	9,793
Provision for dividends distributable	3,867	(3,867)	-
Balance, ending period	<u>322,499</u>	<u>(7,733)</u>	<u>314,766</u>
<b>Investment Shares</b>			
Balance, beginning period	101,353	(1,543)	99,810
Issued and redeemed for cash, net	850	-	850
Provision for dividends distributable	1,542	(1,542)	-
Balance, ending period	<u>103,745</u>	<u>(3,085)</u>	<u>100,660</u>
<b>Retained Earnings</b>			
Balance, beginning period	370,454	4,273	374,727
Net income and comprehensive income	10,731	-	10,731
Provision for dividends on share capital	(5,409)	5,409	-
Income tax recovery thereon	1,138	(1,138)	-
Balance, ending period	<u>376,914</u>	<u>8,544</u>	<u>385,458</u>
Member Equity, end of period	<u>\$ 803,158</u>	<u>\$ (2,274)</u>	<u>\$ 800,884</u>

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**11. Restatement (continued)**

**Consolidated Statement of Member Equity for the six months ended April 30, 2010**

(\$ thousands)

	<b>Ended 30-Apr-10 Originally Published</b>	<b>Due to Member Share dividend</b>	<b>Six Months Ended 30-Apr-10 Restated</b>
<b>Common Shares</b>			
Balance, beginning period	\$ 303,950	-	\$ 303,950
Issued and redeemed for cash, net	10,816	-	10,816
Provision for dividends distributable	7,733	(7,733)	-
Balance, ending period	<u>322,499</u>	<u>(7,733)</u>	<u>314,766</u>
<b>Investment Shares</b>			
Balance, beginning period	102,790	-	102,790
Issued and redeemed for cash, net	(2,130)	-	(2,130)
Provision for dividends distributable	3,085	(3,085)	-
Balance, ending period	<u>103,745</u>	<u>(3,085)</u>	<u>100,660</u>
<b>Retained Earnings</b>			
Balance, beginning period	357,913		357,913
Net income and comprehensive income	27,545	-	27,545
Provision for dividends on share capital	(10,818)	10,818	-
Income tax recovery thereon	2,274	(2,274)	-
Balance, ending period	<u>376,914</u>	<u>8,544</u>	<u>385,458</u>
Member Equity, end of period	<u>\$ 803,158</u>	<u>\$ (2,274)</u>	<u>\$ 800,884</u>