

SERVUS CREDIT UNION LTD.

Interim Consolidated Financial Statements

For The Nine Months Ended

July 31, 2011

(unaudited)

(As restated, see Note 11)

Servus Credit Union Ltd
Interim Consolidated Balance Sheet
(unaudited)

(\$ thousands)	Note	July 31, 2011	October 31, 2010
Assets			
Cash		\$ 140,236	\$ 144,231
Investments		1,010,986	1,005,724
Member loans	2,3	9,731,524	9,367,391
Foreclosed assets	2	15,123	7,326
Property and equipment	4	192,234	198,322
Property and land available for sale	4	7,084	9,352
Intangible assets	5	19,942	13,112
Other assets		41,187	41,290
		\$ 11,158,316	\$ 10,786,748
Liabilities			
Member deposits		\$ 10,173,787	\$ 9,831,908
Accounts payable and other liabilities		109,197	122,645
		10,282,984	9,954,553
Guarantees and commitments	7		
Member Equity			
Share capital		441,673	439,967
Retained earnings		433,659	392,228
		875,332	832,195
		\$ 11,158,316	\$ 10,786,748

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	Three Months Ended July 31, 2011	Three Months Ended July 31, 2010	Nine Months Ended July 31, 2011	Nine Months Ended July 31, 2010
Interest Income					
Member loans		\$ 111,918	\$ 105,625	\$ 330,339	\$ 309,493
Investments		1,556	1,189	6,128	3,133
Total interest income		<u>113,474</u>	<u>106,814</u>	<u>336,467</u>	<u>312,626</u>
Interest Expense					
Member deposits		38,069	35,494	112,507	103,277
Term loans		25	668	164	1,681
Total interest expense		<u>38,094</u>	<u>36,162</u>	<u>112,671</u>	<u>104,958</u>
Net Interest Income					
Provision for credit losses	3	75,380	70,652	223,796	207,668
		<u>2,575</u>	<u>1,334</u>	<u>12,592</u>	<u>4,879</u>
Net interest income after provision for credit losses		<u>72,805</u>	69,318	<u>211,204</u>	202,789
Other Income					
		<u>19,964</u>	17,766	<u>60,719</u>	56,742
Net interest income and other income		<u>92,769</u>	<u>87,084</u>	<u>271,923</u>	<u>259,531</u>
Operating Expenses					
Personnel		37,126	37,857	111,223	110,241
General		15,109	13,206	45,992	39,821
Occupancy		4,726	4,457	13,807	13,361
Member security		4,391	4,673	13,472	13,762
Depreciation	4	3,592	2,806	10,830	10,017
Organization		1,157	1,058	3,453	3,141
Amortization	5	514	1,115	1,815	1,446
Total operating expenses		<u>66,615</u>	<u>65,172</u>	<u>200,592</u>	<u>191,789</u>
Income before patronage allocation to members and income taxes					
		26,154	21,912	71,331	67,742
Patronage allocation to members	8	<u>6,250</u>	<u>5,500</u>	<u>18,750</u>	<u>16,500</u>
Income before income taxes		<u>19,904</u>	16,412	<u>52,581</u>	51,242
Income taxes		<u>4,288</u>	<u>3,476</u>	<u>11,150</u>	<u>10,761</u>
Net income		<u>15,616</u>	12,936	<u>41,431</u>	40,481
Other comprehensive income					
Other comprehensive income		-	-	-	-
Net income and comprehensive income		<u>\$ 15,616</u>	<u>\$ 12,936</u>	<u>\$ 41,431</u>	<u>\$ 40,481</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>	Three Months Ended July 31, 2011	Three Months Ended July 31, 2010 (Restated Note 11)	Nine Months Ended July 31, 2011	Nine Months Ended July 31, 2010 (Restated Note 11)
Share Capital				
Common Shares				
Balance, beginning of period	335,923	\$ 314,766	\$ 334,745	\$ 303,950
Issued and redeemed for cash, net	3,422	3,133	4,600	13,949
Balance, end of period	<u>339,345</u>	<u>317,899</u>	<u>339,345</u>	<u>317,899</u>
Investment Shares				
Balance, beginning of period	102,912	100,660	105,222	102,790
Issued and redeemed for cash, net	(584)	(917)	(2,894)	(3,047)
Balance, end of period	<u>102,328</u>	<u>99,743</u>	<u>102,328</u>	<u>99,743</u>
Share Capital, end of period	<u>441,673</u>	<u>417,642</u>	<u>441,673</u>	<u>417,642</u>
Retained Earnings				
Balance, beginning of period	418,043	385,458	392,228	357,913
Net income and comprehensive income	15,616	12,936	41,431	40,481
Balance, end of period	<u>433,659</u>	<u>398,394</u>	<u>433,659</u>	<u>398,394</u>
Member Equity, end of Period	<u>\$ 875,332</u>	<u>\$ 816,036</u>	<u>\$ 875,332</u>	<u>\$ 816,036</u>

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

(\$ thousands)	Three Months Ended July 31, 2011	Three Months Ended July 31, 2010 (Restated Note 11)	Nine Months Ended July 31, 2011	Nine Months Ended July 31, 2010 (Restated Note 11)
Cash Flows From (Used in) Operating Activities				
Net income	\$ 15,616	\$ 12,936	\$ 41,431	\$ 40,481
Adjustments for:				
Depreciation	3,592	2,806	10,830	10,017
Amortization	514	1,115	1,815	1,446
Provision for credit losses	2,575	1,334	12,592	4,879
Investment income from equity method investments	(2,770)	(729)	(7,073)	(3,414)
Gain on sale of property and equipment	(699)	(38)	368	(442)
Loss on acquisition of Apex Credit Union Ltd	-	-	-	1,550
Net change in other assets and accounts payable and other liabilities	9,200	(20,962)	(13,152)	(38,133)
Net change in accrued interest on member loans	(875)	(859)	1,207	(2,518)
Net change in accrued interest on member deposits	(436)	10,047	2,695	(17,283)
Net change in accrued interest on term loans	-	1	-	(1)
Net change in accrued interest on investments	(285)	(363)	(615)	131
	26,432	5,288	50,098	(3,287)
Cash Flows From (Used in) Investing Activities				
Additions to intangible assets	(3,783)	-	(8,882)	-
Additions to property and equipment	267	(11,950)	(5,169)	(19,197)
Proceeds on disposal of property and equipment	2,402	-	2,564	826
Additions to foreclosed assets	(7,343)	-	(7,901)	-
Member loans, net	(187,981)	(95,393)	(377,828)	(327,594)
Investments, net	6,953	(214,890)	2,426	(248,201)
Cash acquired from business combinations	-	-	-	355
	(189,485)	(322,233)	(394,790)	(593,811)
Cash Flows From (Used in) Financing Activities				
Advances of term loans payable	-	2,346	-	286,396
Repayment of term loans payable	-	(202,403)	-	(239,817)
Member deposits	153,537	475,738	339,184	505,801
Repayment of obligation under capital lease	(65)	(63)	(193)	(186)
Shares, issued and redeemed, net	2,838	3,350	1,706	11,589
	156,310	278,968	340,697	563,783
Increase in Cash	(6,743)	(37,977)	(3,995)	(33,315)
Cash, beginning of period	146,979	180,149	144,231	175,487
Cash, End of Period	\$ 140,236	\$ 142,172	\$ 140,236	\$ 142,172
Supplementary cash flow information				
Interest paid during the period	\$ 38,529	\$ 26,114	\$ 109,975	\$ 122,242
Interest and dividends received during the period	112,313	105,592	337,058	310,239
Income taxes paid during the period	3,431	2,096	8,001	13,021

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

2. Member Loans, Impaired Loans and Foreclosed Assets

As at July 31, 2011

(\$ thousands)	Allowance for Credit Losses				Gross Impaired Member Loans
	Member Loans Gross Amount	Specific	General	Member Loans Net Amount	
Residential mortgages	\$ 5,568,241	\$ 1,503	\$ 369	\$ 5,566,369	\$ 39,152
Commercial mortgages and loans	2,878,589	18,887	2,299	2,857,403	42,566
Consumer loans	1,012,311	4,919	3,392	1,004,000	10,178
Agricultural mortgages and loans	272,001	65	120	271,816	3,563
Sub-total	9,731,142	25,374	6,180	9,699,588	95,459
Accrued interest	31,936	-	-	31,936	-
Total	\$ 9,763,078	\$ 25,374	\$ 6,180	\$ 9,731,524	\$ 95,459

As at October 31, 2010

(\$ thousands)	Allowance for Credit Losses				Gross Impaired Member Loans
	Member Loans Gross Amount	Specific	General	Member Loans Net Amount	
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	-
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 July 31, 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 31-Jul-11	As at 31-Oct-10
	Foreclosed assets - gross	\$ 17,200
Allowance for impairment	(2,077)	(2,249)
Foreclosed assets - net	\$ 15,123	\$ 7,326

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

3. Allowance for Credit Losses

(\$ thousands)	As at 31-Jul-11	As at 31-Jul-10
Balance, beginning of period	\$ 23,185	\$ 22,293
Loans written off	(5,023)	(4,787)
Recoveries of amounts written off in prior years	800	543
Provisions for credit losses	12,592	4,879
Balance, end of period	<u>\$ 31,554</u>	<u>\$ 22,928</u>

4. Property and Equipment

As at July 31, 2011

(\$ thousands)	Cost	Accumulated Depreciation	Net
Land	\$ 30,506	\$ -	30,506
Buildings	154,742	33,086	121,656
Furniture, office equipment and vehicles	51,159	33,710	17,449
Leasehold improvements	31,818	17,637	14,181
Computer equipment	26,639	19,906	6,733
Equipment under capital lease	1,269	846	423
Airplane	975	164	811
Real estate investment properties	596	121	475
Total	<u>\$ 297,704</u>	<u>\$ 105,470</u>	<u>\$ 192,234</u>

As at October 31, 2010

(\$ thousands)	Cost	Accumulated Depreciation	Net
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	<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 and nine months ended July 31, 2011 for property and equipment was \$3,592 and \$10,830 (2010 - \$2,806 and \$10,017) respectively.

For the three and nine months ended July 31, 2011, the Credit Union recorded an impairment of \$nil and \$1,036 (2010: \$nil) which has been recorded in Operating expenses general.

At July 31, 2011, the Credit Union has a total of \$7,084 (2010 - \$9,352) in property and land available for sale. It is expected that these assets will be sold during the next 12 months.

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

5. Intangible Assets

As at July 31, 2011

(\$ thousands)	Cost	Accumulated Amortization	Net
Computer software	\$ 28,497	25,471	\$ 3,026
Computer software under development	16,916	-	16,916
	\$ 45,413	\$ 25,471	\$ 19,942

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 Interim Consolidated Statement of Income and Comprehensive Income for the three months and nine months ended July 31, 2011 for intangible assets was \$514 and \$1,815 (2010 - \$1,115 and \$1,446) respectively.

6. Credit Facility

During the nine-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 July 31, 2011, the Credit Union has \$nil in outstanding loans payable and line of credit with CCD.

7. Guarantees and Commitments

As at July 31, 2011, the Credit Union had \$2,207,041 (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

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.

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

9. Business Combinations

In November and December, 2010, the Board of Directors approved the acquisition of 100% interest in 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:

(\$ thousands)	Nine months Ended As at 31-Jul-11
Cash proceeds paid	\$ (8,350)
Cash proceeds received	<u>12,000</u>
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	<u>(100)</u>
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
For the nine months ended July 31, 2011
(unaudited)

11. Restatement Due to Share Dividend

It was determined that the Credit Union erroneously recorded common and investment share dividends in its unaudited interim consolidated financial statements for the nine months ended July 31, 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 nine months ended July 31, 2010 common shares and investment shares were overstated by \$3,866 (nine months: \$11,599) and \$1,543 (nine months: \$4,628) respectively. In addition, retained earnings were understated by \$12,819 (nine months: \$12,819), net of the income tax recovery of \$1,134 (nine months: \$3,408). Other assets as at July 31, 2010 were understated by \$3,408 relating to the income tax recovery.

The interim consolidated statement of cash flows for the three months and nine months ended July 31, 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 nine months ended July 31, 2011, the October 31, 2010 consolidated balance sheet or on the three months and nine months ended July 31, 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 nine months ended July 31, 2010 of the interim consolidated statement of member equity.

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

11. Restatement Due to Share Dividend (continued)

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

(\$ thousands)	Three Months Ended 31-Jul-10 Originally Published	Restatement Due to Member Share dividend	Three Months Ended 31-Jul-10 Restated
Common Shares			
Balance, beginning period	\$ 322,499	(7,733)	\$ 314,766
Issued and redeemed for cash, net	3,133	-	3,133
Provision for dividends distributable	3,866	(3,866)	-
Balance, ending period	<u>329,498</u>	<u>(11,599)</u>	<u>317,899</u>
Investment Shares			
Balance, beginning period	103,745	(3,085)	100,660
Issued and redeemed for cash, net	(917)	-	(917)
Provision for dividends distributable	1,543	(1,543)	-
Balance, ending period	<u>104,371</u>	<u>(4,628)</u>	<u>99,743</u>
Retained Earnings			
Balance, beginning period	376,914	8,544	385,458
Net income and comprehensive income	12,936	-	12,936
Provision for dividends on share capital	(5,409)	5,409	-
Income tax recovery thereon	1,134	(1,134)	-
Balance, ending period	<u>385,575</u>	<u>12,819</u>	<u>398,394</u>
Member Equity, end of period	<u>\$ 819,444</u>	<u>\$ (3,408)</u>	<u>\$ 816,036</u>

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

11. Restatement Due to Share Dividend (continued)

Consolidated Statement of Member Equity for the nine months ended July 31, 2010

(\$ thousands)

	Ended 31-Jul-10 Originally Published	Due to Member Share dividend	Nine Months Ended 31-Jul-10 Restated
Common Shares			
Balance, beginning period	\$ 303,950	-	\$ 303,950
Issued and redeemed for cash, net	13,949	-	13,949
Provision for dividends distributable	11,599	(11,599)	-
Balance, ending period	<u>329,498</u>	<u>(11,599)</u>	<u>317,899</u>
Investment Shares			
Balance, beginning period	102,790	-	102,790
Issued and redeemed for cash, net	(3,047)	-	(3,047)
Provision for dividends distributable	4,628	(4,628)	-
Balance, ending period	<u>104,371</u>	<u>(4,628)</u>	<u>99,743</u>
Retained Earnings			
Balance, beginning period	357,913	-	357,913
Net income and comprehensive income	40,481	-	40,481
Provision for dividends on share capital	(16,227)	16,227	-
Income tax recovery thereon	3,408	(3,408)	-
Balance, ending period	<u>385,575</u>	<u>12,819</u>	<u>398,394</u>
Member Equity, end of period	<u>\$ 819,444</u>	<u>\$ (3,408)</u>	<u>\$ 816,036</u>