

SERVUS CREDIT UNION LTD.

Interim Consolidated Financial Statements

Three Month Period Ended January 31, 2009

(unaudited)

(As restated, see Note 11)

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

(\$ thousands)	Notes	January 31, 2009	October 31, 2008
			Restated (Note 11)
Assets			
Cash		\$ 51,743	\$ 54,893
Investments	8	873,161	880,720
Member loans	2,3	8,526,998	8,351,454
Property and equipment		199,877	198,659
Other assets		23,647	31,585
		\$ 9,675,426	\$ 9,517,311
Liabilities			
Member deposits		\$ 8,672,948	\$ 8,654,275
Term loans payable	4	218,498	79,882
Accounts payable and other liabilities		65,201	87,953
		8,956,647	8,822,110
Guarantees and commitments	5		
Member Equity			
Share capital	1	383,894	381,615
Retained earnings		333,285	312,797
Accumulated other comprehensive income		1,600	789
		718,779	695,201
		\$ 9,675,426	\$ 9,517,311

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)	Notes	Three Months Ended January 31, 2009	Three Months Ended January 31, 2008
Interest Income			
Member loans		\$ 112,847	\$ 119,189
Investment		7,038	12,116
		<u>119,885</u>	<u>131,305</u>
Interest Expense			
Member deposits		50,228	60,771
Term loans payable		1,030	4,939
		<u>51,258</u>	<u>65,710</u>
Net Interest Income		68,627	65,595
Provision for credit losses	3	<u>2,166</u>	<u>573</u>
Net interest income after provision for credit losses		66,461	65,022
Other Income		<u>14,758</u>	<u>18,859</u>
Net interest and other income		<u>81,219</u>	<u>83,881</u>
Operating Expenses			
Personnel		32,584	29,314
General		9,930	9,775
Occupancy		5,010	4,180
Member security		3,559	3,832
Depreciation		3,345	3,059
Organization		591	804
		<u>55,019</u>	<u>50,964</u>
Income before patronage allocation to members and income taxes		26,200	32,917
Patronage allocation to members	7	<u>4,708</u>	<u>3,759</u>
Income before income taxes		21,492	29,158
Income taxes		<u>4,224</u>	<u>7,069</u>
Operating net income		17,268	22,089
Extraordinary item	8	<u>7,349</u>	<u>-</u>
Net income		24,617	22,089
Other comprehensive income, net of taxes			
Change in unrealized gains and losses on investments held for sale ¹		885	523
Comprehensive Income		<u>\$ 25,502</u>	<u>\$ 22,612</u>

¹ Net of future income taxes, 2009 - \$235, 2008 - \$143.

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

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

(\$ thousands)		Three Months Ended January 31, 2009 Restated (Note 11)	Three Months Ended January 31, 2008 Restated (Note 11)
Common Shares			
Balance, beginning of period	1	\$ 267,878	\$ 249,820
Distribution of dividends declared in prior period		13,316	12,792
Issued and redeemed for cash, net		(780)	(1,715)
Provision for dividends distributable	7	3,606	3,199
Balance, end of period		284,020	264,096
Investment Shares			
Balance, beginning of period	1	95,494	92,936
Distribution of dividends declared in prior period		4,927	5,694
Issued and redeemed for cash, net		(2,176)	(2,811)
Provision for dividends distributable	7	1,629	1,541
Balance, end of period		99,874	97,360
Retained Earnings			
Balance, beginning of period		312,797	267,549
Net income		24,617	22,089
Provision for dividends on share capital	7	(5,235)	(4,740)
Income tax recovery thereon		1,106	1,483
Balance, end of period		333,285	286,381
Accumulated Other Comprehensive Income, Net of Taxes			
Balance, beginning of period ¹		789	88
Reclassification of gains and losses on investments available for sale ²		(74)	(176)
Other comprehensive income for the period ³		885	523
Balance, end of period		1,600	435
Member Equity, End of Period		\$ 718,779	\$ 648,272

¹ Net of future income taxes, 2009 - \$210, 2008 - \$25.

² Net of future income taxes, 2009 - \$19, 2008 - \$52.

³ Net of future income taxes, 2009 - \$235, 2008 - \$143.

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)	Three Months Ended January 31, 2009 Restated (Note 11)	Three Months Ended January 31, 2008 Restated (Note 11)
Cash Flows From (Used in) Operating Activities		
Operating net income	\$ 17,268	\$ 22,089
Adjustments for:		
Depreciation	3,345	3,059
Provision for credit losses	2,166	573
Provision for patronage allocation to members	4,708	3,759
Realized loss/(gains) on investments available for sale	93	228
Investment income - equity method	(698)	-
Gain on sale of property and equipment	(20)	(729)
Gain on sale of member loans	-	(1,846)
Net change in other assets and accounts payable and other liabilities	(11,480)	(29,771)
Net change in accrued interest on member loans	1,681	1,119
Net change in accrued interest on member deposits	(9,995)	1,812
Net change in accrued interest on investments	1,945	5,916
	9,013	6,209
Cash Flows From (Used in) Investing Activities		
Additions to property and equipment	(11,504)	(4,498)
Proceeds on disposal of property and equipment	338	(210)
Member loans, net	(179,391)	(287,856)
Investments, net	14,595	(21,039)
	(175,962)	(313,603)
Cash Flows From (Used in) Financing Activities		
Advances of term loans payable	205,000	216,000
Repayment of term loans payable	(66,384)	(308,357)
Proceeds from sale of member loans	-	138,755
Member deposits	28,668	312,550
Shares, issued and redeemed, net	(2,956)	(4,526)
Income tax recovery on share capital	1,106	1,483
	165,434	355,905
(Decrease) Increase in Cash	(1,515)	48,511
Cash, beginning of period	54,893	25,183
Cash, End of Period	\$ 53,378	\$ 73,694
Supplementary cash flow information		
Interest paid during the period	\$ 61,253	\$ 63,898
Interest and dividends received during the period	114,528	120,308
Income taxes paid during the period	2,622	5,693

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 January 31, 2009
(\$ thousands)
(unaudited)

1. Basis of Presentation

Effective November 1, 2008, Servus Credit Union of Edmonton, Alberta amalgamated with Common Wealth Credit Union of Lloydminster, Alberta and Community Savings of Red Deer, Alberta to form the amalgamated entity, Servus Credit Union Ltd. (the Credit Union).

On amalgamation, all common and investment shares of each predecessor credit union was converted share for share into an equal number of common or investment shares with a par value of 1 dollar each of the amalgamated Credit Union.

Comparative figures have been presented as if the predecessor credit unions were amalgamated prior to that period. Comparative figures have been reclassified to conform to current period presentation.

These unaudited interim consolidated financial statements (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, 2008 as set out in the 2008 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 1 to the financial statements of Servus Credit Union for the year ended October 31, 2008 except as noted in Note 7 and 8.

2. Member Loans and Impaired Loans

as of January 31, 2009	Gross Amount	Allowance for Credit Losses		Net Amount	Gross Impaired Loans
		Specific	General		
Consumer loans	\$ 1,150,220	\$ 2,471	\$ 6,872	\$ 1,140,877	\$ 11,463
Residential mortgages	4,461,930	27	1,693	4,460,210	14,215
Commercial mortgages and loans	2,626,936	3,616	3,362	2,619,958	11,793
Agricultural mortgages and loans	276,652	163	1,325	275,164	5,265
Foreclosed assets	547	-	-	547	547
	8,516,285	6,277	13,252	8,496,756	43,283
Accrued interest	30,242	-	-	30,242	-
Total	\$ 8,546,527	\$ 6,277	\$ 13,252	\$ 8,526,998	\$ 43,283

as of October 31, 2008	Gross Amount	Allowance for Credit Losses		Net Amount	Gross Impaired Loans
		Specific	General		
Consumer loans	\$ 1,134,163	\$ 2,010	\$ 6,337	\$ 1,125,816	\$ 10,497
Residential mortgages	4,418,386	108	2,340	4,415,938	11,418
Commercial mortgages and loans	2,513,678	3,073	3,347	2,507,258	9,610
Agricultural mortgages and loans	270,447	32	347	270,068	5,098
Foreclosed assets	451	-	-	451	451
	8,337,125	5,223	12,371	8,319,531	37,074
Accrued interest	31,923	-	-	31,923	-
Total	\$ 8,369,048	\$ 5,223	\$ 12,371	\$ 8,351,454	\$ 37,074

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3. Allowance for Credit Losses

Details of the changes in the allowance for credit losses are as follows:

	Three Months Ended January 31, 2009	Twelve Months Ended October 31, 2008
Balance, beginning of period	\$ 17,594	\$ 16,917
Loans written offs	(413)	(4,396)
Recoveries of amounts written offs in prior years	182	859
Provision for credit losses	<u>2,166</u>	<u>4,214</u>
Balance, end of period	\$ 19,529	\$ 17,594

4. Term Loans Payable (Restated, Note 11)

The Credit Union has a credit facility agreement with Credit Union Central of Alberta (Central) in the aggregate amount of \$950,000 comprising a revolving demand operating line of credit (line of credit), a letter of credit and revolving term loans. Interest on the line of credit is payable monthly at Central's prime rate for Canadian dollar advances and Central's US base rate on US dollar advances, in both cases plus or minus the applicable discount or margin of Central in effect from time to time.

Revolving term loans are due on demand or repayable in terms of 1 to 24 months for each advance with interest calculated at Central's prime rate plus or minus the applicable discount or margin of Central in effect from time to time or, at the option of the Credit Union, for terms of more than 30 days a fixed rate equal to Central's money market deposit rate or the equivalent paid fixed swap rate for the term minus the applicable discount or margin. A general assignment of book debts and hypothecation of investments with Central are pledged as collateral.

At January 31, 2009, the Credit Union had \$218,333 (October 31, 2008 – \$79,827) outstanding in revolving loans with \$165 (October 31, 2008 - \$55) in accrued interest. The entire \$218,333 is repayable within 15 months.

The Credit Union has a letter of credit with Central for US \$3,000 (Cdn \$3,728) in favour of MasterCard International, Inc. as part of a card issuer agreement. Fees consist of ½ of 1% annually, or US \$15 (Cdn \$19).

5. Guarantees and Commitments (Restated, Note 11)

As at January 31, 2009, the Credit Union has \$2,590,125 (October 31, 2008 - \$2,559,273) in standby letters of credit, letters of guarantee and commitment to extend credit on behalf of members.

SERVUS CREDIT UNION LTD.
Notes to Interim Consolidated Financial Statements
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6. Interest Rate Sensitivity

Interest rate risk refers to the potential impact of changes in interest rates on the Credit Union's earnings when maturities of its financial liabilities are not matched with the maturities of its financial assets. The table below summarizes amounts by maturity dates and weighted average effective interest rates.

	Floating Rate	Within 1 Year	More Than 1 Year	Non Interest Sensitive	Total
Cash	\$ 19,647	\$ -	\$ -	\$ 32,096	\$ 51,743
Investments	-	721,328	27,812	124,021	873,161
Effective yield	-	2.36%	4.89%	-	2.10%
Member loans	3,666,313	1,317,845	3,526,661	16,179	8,526,998
Effective yield	3.82%	5.98%	6.02%	-	5.06%
Other	-	-	-	223,524	223,524
	3,685,960	2,039,173	3,554,473	\$ 395,820	9,675,426
Member deposits	2,227,100	3,761,927	1,935,326	\$ 748,595	\$ 8,672,948
Effective yield	1.18%	2.42%	3.35%	-	2.10%
Other Liabilities	185,030	27,500	5,833	65,335	283,698
Effective yield	1.72%	3.42%	3.48%	-	1.52%
Equity	-	-	-	718,780	718,780
	2,412,130	3,789,427	1,941,159	\$ 1,532,710	9,675,426
- Notional value of asset derivative financial instruments	65,000	20,000 4.25%	215,000 4.35%	-	300,000 3.40%
- Notional value of liabilities derivative financial instruments	30,000 1.15%	45,000 4.30%	225,000 4.51%	-	300,000 4.14%
	35,000	(25,000)	(10,000)	-	-
Net 2009 position	\$ 1,238,830	\$ (1,725,254)	\$ 1,623,314	\$ (1,136,890)	\$ -
Net 2008 position	\$ 848,747	\$ (1,288,914)	\$ 1,723,349	\$ (1,283,182)	\$ -

7. Patronage, Common and Investment Share Allocation to Members

In 2009, the Board of Directors approved the policy to pay patronage to members in cash instead of issuing common shares as payment. Patronage is payments made to members to share profits and reward them for having their banking business with the Credit Union. 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.

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8. Equity Investments (Restated Note 11)

With the amalgamation on November 1, 2008, the Credit Union now owns 51.9 percent of the common shares outstanding of Alberta Central (Central). Due to the governance structure of Central, management has determined that the Credit Union has significant influence, but not control, over Central. Therefore, beginning on November 1, 2008, the investment in Central is accounted for using the equity method.

On November 1, 2008, the Credit Union's share of Central's net financial assets exceeded the carrying value of the common share investment in Central, resulting in an extraordinary gain of \$7,349. As at January 31, 2009 the carrying value of the investment in Central included in Investments on the Consolidated Balance Sheet is \$103,233. Included in Investment income for the period November 1, 2008 to January 31, 2009 is equity income from the investment in Central of \$698. The investment in Central has been classified as being available -for-sale.

9. Future Accounting Changes

In February 2008, the Canadian Accounting Standards Board announced that Canadian GAAP for publicly accountable enterprises will be replaced by International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. The Credit Union is specifically scoped into the definition of a publicly accountable enterprise. As such, the Credit Union will be required to prepare its January 31, 2012 quarterly financial statements, including comparative information, in compliance with IFRS.

The Credit Union is participating in the National IFRS Readiness Project for Credit Unions sponsored by Credit Union Central of Canada. The Credit Union has begun its analysis of the expected areas of impact, and expects to have completed the development of a detailed implementation plan by September 2009.

The Credit Union is currently in the process of assessing the differences between our current accounting policies and those provided by IFRS, as well as the alternatives available on adoption. The Credit Union's assessment will include the potential impact of the conversion effort on systems, internal controls over financial reporting and disclosure, and business activities.

10. Comparative Figures

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

SERVUS CREDIT UNION LTD.
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11. Restatement of Previously Issued Interim Consolidated Financial Statements

The financial statements originally issued on March 30, 2009 were withdrawn to correct the following errors:

- a) The common share balance at the end of the period for the three months ended January 31, 2008 was overstated by \$916 which was a result of an incorrect grouping of the following: 1) distribution of dividends declared in prior year of \$43, 2) dividends issued and redeemed for cash, net of \$666, and 3) provision for dividends distributable of \$293. The provision for investment share dividends distributable and investment share balance at the end of the period for the three months ended January 31, 2008 were understated by \$221. Both errors were due to the dividends for investment shares being recorded in the management information system as increases to common shares. The Retained earnings balance for the three months ended January 31, 2008 was understated by \$42 resulting in miscalculation of provision for dividends on share capital of \$72 and income tax recovery of \$30. The impact of all these errors was a decrease of \$653 in the member equity balance at the end of the period for the three months ended January 31, 2008.
 - b) The investment share balance at the beginning of the period for the three months ended January 31, 2008 initially recorded was overstated by \$2,700. This error was due to incorrect beginning balances being used from the newly combined credit union accounts and resulted in a miscalculation in investment shares issued and redeemed for cash, net of \$2,665, and distribution of dividends declared in prior period of \$35.
 - c) The consolidated statement of cash flow for the three months ended January 31, 2009 and 2008 were amended to reflect correction of errors described above and the Credit Union added additional cash flow disclosures to conform with the quarterly interim consolidated cash flow of April 2009.
 - d) Term loans payable (Note 4) for the three months ended January 31, 2008 initially recorded \$284,332 in outstanding revolving term loans and \$585 in accrued interest instead of \$79,827 and \$55, respectively.
 - e) Guarantees and commitments (Note 5) for the three months ended January 31, 2008 did not include letters of credit outstanding and initially recorded an amount of \$2,549,668 in error. The correct amount is \$2,559,273.
 - f) Equity investments (Note 8) as at January 31, 2009 did not include the full impact of recognizing all the year-to-date income from Central and initially disclosed an amount of \$100,999 in error. The correct amount is \$103,233.
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