

**SERVUS CREDIT UNION LTD.**

**Interim Consolidated Financial Statements**

**Six Month Period Ended April 30, 2009**

**(unaudited)**

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

<i>(\$ thousands)</i>	Notes	April 30, 2009	October 31, 2008
<b>Assets</b>			
Cash		\$ 251,470	\$ 54,893
Investments	9	872,288	880,720
Member loans	2,3,4	8,581,579	8,351,454
Property and equipment		203,300	198,659
Other assets		26,877	31,585
		<u>\$ 9,935,514</u>	<u>\$ 9,517,311</u>
<b>Liabilities</b>			
Member deposits		\$ 9,080,980	\$ 8,654,275
Term loans payable	5	26,460	79,882
Accounts payable and other liabilities		89,371	87,953
		<u>9,196,811</u>	<u>8,822,110</u>
Guarantees and commitments	6		
<b>Member Equity</b>			
Share capital	1	395,482	381,615
Retained earnings		341,755	312,797
Accumulated other comprehensive income		1,466	789
		<u>738,703</u>	<u>695,201</u>
		<u>\$ 9,935,514</u>	<u>\$ 9,517,311</u>

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 April 30, 2009	Three Months Ended April 30, 2008	Six Months Ended April 30, 2009	Six Months Ended April 30, 2008
<b>Interest Income</b>					
Member loans		\$ 101,592	\$ 115,139	\$ 214,439	\$ 234,328
Investments		4,923	9,104	11,961	21,220
		<b>106,514</b>	<b>124,243</b>	<b>226,399</b>	<b>255,548</b>
<b>Interest Expense</b>					
Member deposits		43,339	57,938	93,567	118,709
Term loans payable		1,006	3,246	2,036	8,185
		<b>44,345</b>	<b>61,184</b>	<b>95,603</b>	<b>126,894</b>
<b>Net Interest Income</b>					
Provision for credit losses	3	62,169	63,059	130,796	128,654
		<b>3,116</b>	<b>2,051</b>	<b>5,282</b>	<b>2,624</b>
Net interest income after provision for credit losses		<b>59,053</b>	<b>61,008</b>	<b>125,514</b>	<b>126,030</b>
<b>Other Income</b>					
		<b>20,172</b>	<b>20,443</b>	<b>34,930</b>	<b>39,302</b>
Net interest and other income		<b>79,225</b>	<b>81,451</b>	<b>160,444</b>	<b>165,332</b>
<b>Operating Expenses</b>					
Personnel		32,146	30,409	64,730	59,723
General		11,815	11,227	21,745	21,002
Occupancy		5,416	4,480	10,426	8,660
Member security		4,350	3,883	7,909	7,715
Depreciation		3,349	3,171	6,694	6,230
Organization		1,088	1,178	1,679	1,982
		<b>58,164</b>	<b>54,348</b>	<b>113,183</b>	<b>105,312</b>
Income before patronage allocation to members and income taxes		<b>21,061</b>	<b>27,103</b>	<b>47,261</b>	<b>60,020</b>
Patronage allocation to members	8	<b>4,485</b>	<b>3,758</b>	<b>9,193</b>	<b>7,517</b>
Income before income taxes		<b>16,576</b>	<b>23,345</b>	<b>38,068</b>	<b>52,503</b>
Income taxes		<b>3,893</b>	<b>5,005</b>	<b>8,117</b>	<b>12,074</b>
Operating net income		<b>12,683</b>	<b>18,340</b>	<b>29,951</b>	<b>40,429</b>
Extraordinary item	9	-	-	<b>7,349</b>	-
Net income		<b>12,683</b>	<b>18,340</b>	<b>37,300</b>	<b>40,429</b>
<b>Other comprehensive income, net of taxes</b>					
Change in unrealized gains and losses on investments held for sale <sup>1</sup>		145	(207)	1,030	316
<b>Comprehensive Income</b>		<b>\$ 12,828</b>	<b>\$ 18,133</b>	<b>\$ 38,330</b>	<b>\$ 40,745</b>

<sup>1</sup> Net of future income taxes of \$38 for the three months ended April 30, 2009 (2008 - \$230) and \$274 for the six months ended April 30, 2009 (2008 - \$84).

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>	<b>Notes</b>	<b>Three Months Ended April 30, 2009</b>	<b>Three Months Ended April 30, 2008</b>	<b>Six Months Ended April 30, 2009</b>	<b>Six Months Ended April 30, 2008</b>
<b>Common Shares</b>					
Balance, beginning of period	1	\$ 284,020	\$ 264,096	\$ 267,878	\$ 249,820
Distribution of dividends declared in prior period		-	-	13,316	12,792
Issued and redeemed for cash, net		6,565	5,600	5,785	3,885
Provision for dividends distributable	8	3,697	3,201	7,303	6,400
Balance, end of period		<b>294,282</b>	272,897	<b>294,282</b>	272,897
<b>Investment Shares</b>					
Balance, beginning of period	1	99,874	97,360	95,494	92,936
Distribution of dividends declared in prior period		-	-	4,927	5,694
Issued and redeemed for cash, net		(310)	(225)	(2,486)	(3,036)
Provision for dividends distributable	8	1,636	1,542	3,265	3,083
Balance, end of period		<b>101,200</b>	98,677	<b>101,200</b>	98,677
<b>Retained Earnings</b>					
Balance, beginning of period		333,285	286,381	312,797	267,549
Net income		12,683	18,340	37,300	40,429
Provisions for dividends on share capital	8	(5,333)	(4,743)	(10,568)	(9,483)
Income tax recovery thereon		1,120	1,109	2,226	2,592
Balance, end of period		<b>341,755</b>	301,087	<b>341,755</b>	301,087
<b>Accumulated Other Comprehensive Income, Net of Taxes</b>					
Balance, beginning of period <sup>1</sup>		1,600	435	789	88
Reclassification of gains and losses on investments available for sale <sup>2</sup>		(280)	88	(354)	(88)
Other comprehensive income for the period <sup>3</sup>		146	(207)	1,031	316
Balance, end of period		<b>1,466</b>	316	<b>1,466</b>	316
<b>Member Equity, End of Period</b>		<b>\$ 738,703</b>	\$ 672,977	<b>\$ 738,703</b>	\$ 672,977

<sup>1</sup> Net of future income taxes of \$426 for the three months ended April 30, 2009 (2008 - \$116) and \$210 for the six months ended April 30, 2009 (2008 - \$23).

<sup>2</sup> Net of future income taxes of \$75 for the three months ended April 30, 2009 (2008 - \$23) and \$94 for the six months ended April 30, 2009 (2008 - \$23).

<sup>3</sup> Net of future income taxes of \$38 for the three months ended April 30, 2009 (2008 - \$230) and \$274 for the six months ended April 30, 2009 (2008 - \$84).

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

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

<i>(\$ thousands)</i>	Three Months Ended April 30, 2009	Three Months Ended April 30, 2008	Six Months Ended April 30, 2009	Six Months Ended April 30, 2008
<b>Cash Flows From (Used in) Operating Activities</b>				
Operating net income	\$ 12,683	\$ 18,340	\$ 29,951	\$ 40,429
Adjustments for:				
Depreciation	3,349	3,171	6,694	6,230
Provision for credit losses	3,116	2,051	5,282	2,624
Provision for patronage allocation to members	4,485	3,758	9,193	7,517
Realized loss/(gain) on investments available for sale	354	(117)	447	111
Investment income - equity method	(642)	-	(1,340)	-
Gain on sale of property and equipment	-	(100)	(20)	(829)
Gain on sale of member loans	(3,769)	(2,703)	(3,769)	(4,549)
Net change in other assets and accounts payable and other liabilities	9,868	14,398	(3,247)	(15,373)
Net change in accrued interest on member loans	1,092	239	2,773	1,358
Net change in accrued interest on member deposits	(10,501)	(6,527)	(20,496)	(4,715)
Net change in accrued interest on investments	(408)	(2,320)	1,537	3,596
	<u>19,627</u>	<u>30,190</u>	<u>27,005</u>	<u>36,399</u>
<b>Cash Flows From (Used in) Investing Activities</b>				
Additions to property and equipment	(203)	(10,124)	(11,707)	(14,622)
Proceeds on disposal of property and equipment	54	2,398	392	2,188
Member loans, net	(114,314)	(267,099)	(293,705)	(554,955)
Investments, net	1,399	(31,284)	15,994	(52,323)
	<u>(113,064)</u>	<u>(306,109)</u>	<u>(289,026)</u>	<u>(619,712)</u>
<b>Cash Flows From (Used in) Financing Activities</b>				
Advances of term loans payable	(15,000)	(27,000)	190,000	189,000
Repayment of term loans payable	(177,038)	19,314	(243,422)	(289,043)
Proceeds from sale of member loans	59,294	74,208	59,294	212,963
Member deposits	418,533	173,280	447,201	485,830
Shares, issued and redeemed, net	6,255	5,375	3,299	849
Income tax recovery on share capital	1,120	1,109	2,226	2,592
	<u>293,164</u>	<u>246,286</u>	<u>458,598</u>	<u>602,191</u>
<b>(Decrease) Increase in Cash</b>	<b>199,727</b>	<b>(29,633)</b>	<b>196,577</b>	<b>18,878</b>
Cash, beginning of period	<u>51,743</u>	<u>73,694</u>	<u>54,893</u>	<u>25,183</u>
<b>Cash, End of Period</b>	<b>\$ 251,470</b>	<b>\$ 44,061</b>	<b>\$ 251,470</b>	<b>\$ 44,061</b>
Supplementary cash flow information				
Interest paid during the period	\$ 54,846	\$ 67,711	\$ 116,099	\$ 131,609
Interest and dividends received during the period	102,684	119,734	217,212	240,042
Income taxes paid during the period	5,313	2,749	9,570	9,035

**SERVUS CREDIT UNION LTD.**  
**Notes to Interim Consolidated Financial Statements**  
For the period ended April 30, 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 8 and 9.

## 2. Member Loans and Impaired Loans

as of April 30, 2009	Gross Amount	Allowance for Credit Losses		Net Amount	Gross Impaired Loans
		Specific	General		
Consumer loans	\$ 1,159,990	\$ 2,687	\$ 6,031	\$ 1,151,272	\$ 11,320
Residential mortgages	4,455,529	297	984	4,454,248	12,763
Commercial mortgages and loans	2,695,268	4,355	6,971	2,683,942	15,685
Agricultural mortgages and loans	262,959	98	505	262,356	5,529
Foreclosed assets	611	-	-	611	611
	8,574,357	7,437	14,491	8,552,429	45,908
Accrued interest	29,150	-	-	29,150	-
<b>Total</b>	<b>\$ 8,603,507</b>	<b>\$ 7,437</b>	<b>\$ 14,491</b>	<b>\$ 8,581,579</b>	<b>\$ 45,908</b>

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	-
<b>Total</b>	<b>\$ 8,369,048</b>	<b>\$ 5,223</b>	<b>\$ 12,371</b>	<b>\$ 8,351,454</b>	<b>\$ 37,074</b>

**SERVUS CREDIT UNION LTD.**  
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(\$ thousands)  
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### 3. Allowance for Credit Losses

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

	<b>Six Months Ended April 30, 2009</b>		<b>Twelve Months Ended October 31, 2008</b>
Balance, beginning of period	\$ 17,594	\$	16,917
Loans written offs	(1,272)		(4,396)
Recoveries of amounts written offs in prior years	324		859
Provision for credit losses	5,282		4,214
Balance, end of period	<b>\$ 21,928</b>	<b>\$</b>	<b>17,594</b>

### 4. Sale of Member Loans

The Credit Union periodically enters into agreements to fund loan growth and manage liquidity by selling loans to unrelated third parties. The Credit Union retains the contractual obligation to service these loans as part of the agreements. The Credit Union's retained interest in the receivables sold consist of rights to future cash flows after payment to the investor (excess spread) and of servicing obligations. The value of the Credit Union's retained interests is subject to prepayment and interest rate risk on the receivables sold. The third parties have no recourse to the Credit Union's Other assets.

During the six month period ended April 30, 2009, the Credit Union sold \$58,996 of mortgage loan receivables (Six month period ended April 30, 2008 – \$212,659) with the gain of \$3,769 on sale being recognized in the Consolidated Statement of Income and Comprehensive Income as Other income.

One sale consisted of outright sale of mortgages, including all rights and risks, to a third party. The Credit Union's obligation regarding these mortgages is only to service them until maturity. Other sales included the sales of mortgages with the Credit Union maintaining retained rights in excess cash flows produced by the pools of mortgages after payment of required principal and interest amounts to investors. The Credit Union also has an obligation to service the mortgages sold. Since these receivables are sold on a serviced basis, the Credit Union has a servicing liability of \$268 included in Accounts payable and accrued liabilities on the Consolidated Balance Sheet.

#### Loan sale activity in the interim period

	<b>Three Months Ended 30-Apr-09</b>		<b>Six Months Ended 30-Apr-09</b>		<b>Three Months Ended 30-Apr-08</b>		<b>Six Months Ended 30-Apr-08</b>
Principal value of loan receivables sold	\$ 58,996	\$	58,996	\$	73,919	\$	212,659
Net cash proceeds	59,294		59,294		74,208		212,963
Retained rights to future excess spread	4,296		4,296		3,386		6,035
Retained servicing liability	(268)		(268)		(357)		(841)
Direct transaction costs	(258)		(258)		(326)		(676)
	<b>\$ 63,064</b>	<b>\$</b>	<b>63,064</b>	<b>\$</b>	<b>76,911</b>	<b>\$</b>	<b>217,481</b>
Gain on sale before income taxes	<b>\$ 3,769</b>	<b>\$</b>	<b>3,769</b>	<b>\$</b>	<b>2,703</b>	<b>\$</b>	<b>4,549</b>

The retained rights to future excess spread is classified as a held for trading financial instrument and is recorded in Other assets on the Consolidated Balance Sheet. The fair value is measured by calculating the present value of forecasted cash flows using the key economic assumptions noted below. The fair value approximates book value at April 30, 2009.

**SERVUS CREDIT UNION LTD.**  
**Notes to Interim Consolidated Financial Statements**  
For the period ended April 30, 2009  
(\$ thousands)  
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**4. Sale of Member Loans (continued)**

Key economic assumptions

The key economic assumptions used to value the retained rights to future excess spread as at the date of sale are:

Unscheduled prepayment rate (annual %)	15%
Residual cash flow discount rate	2.34%
Weighted average life of loans (years)	3.73
Excess spread	3.53%

Assumptions used to value the servicing liability are based on administrative activity, management estimates and corporate cost structures.

Cash flows related to loan sales

The figures below summarize the cash flows related to the sale of loans for 2009.

Proceeds from loan sales	\$59,294
Cash flows remitted on collections	38,363
Cash flows received on retained rights to excess spread	2,110

Sensitivity to key assumptions

The value of the Retained rights to future excess spread is primarily impacted by changes in the actual prepayment rate on the loans compared to the estimate originally used. An increase in the actual prepayment rate would cause a reduction in the calculated value of this retained interest while a lower prepayment rate would increase the calculated value.

The Credit Union estimates the future the prepayment rate based on historic experience, adjusted for the expected impact of current factors such as prevailing interest rates.

	Prepayment rate	Change in value
Prepayment rate 10% higher	16.5%	(\$379)
Prepayment rate 20% higher	18.0%	(\$742)

A 10% and 20% change in the discount rate would have no significant impact to the value of the Retained rights to future excess spread.

**5. Term Loans Payable**

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 (Note 11). 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 April 30, 2009, the Credit Union had \$26,460 (October 31, 2008 – \$79,882) outstanding in revolving loans with \$2 (October 31, 2008 - \$55) in accrued interest. The entire \$26,460 is repayable within 15 months.

The Credit Union has a letter of credit with Central for US \$3,000 (Cdn \$3,634) 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).



**SERVUS CREDIT UNION LTD.**  
**Notes to Interim Consolidated Financial Statements**  
For the period ended April 30, 2009  
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## 6. Guarantees and Commitments

As at April 30, 2009, the Credit Union has \$2,648,880 (October 31, 2008 - \$2,559,273) in standby letters of credit, letters of guarantee and commitment to extend credit on behalf of members.

## 7. 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	\$ 228,572	\$ -	\$ -	\$ 22,898	\$ 251,470
Investments	107,441	722,353	22,870	19,624	872,288
<i>Effective yield</i>	2.42%	1.40%	5.16%	-	1.59%
Member loans	3,815,175	1,303,945	3,447,921	14,538	8,581,579
<i>Effective yield</i>	3.15%	5.82%	6.16%	-	4.76%
Other	-	-	-	230,177	230,177
	<b>4,151,188</b>	<b>2,026,298</b>	<b>3,470,791</b>	<b>287,237</b>	<b>9,935,514</b>
Member deposits	2,197,797	3,565,606	2,556,675	760,902	9,080,980
<i>Effective yield</i>	6.19%	3.52%	6.51%	-	4.71%
Other Liabilities	2	26,458	-	89,371	115,831
<i>Effective yield</i>	2.84%	3.43%	-	-	0.78%
Equity	-	-	-	738,703	738,703
	<b>2,197,799</b>	<b>3,592,064</b>	<b>2,556,675</b>	<b>1,588,976</b>	<b>9,935,514</b>
- Notional value of asset derivative financial instruments	-	-	215,000	-	215,000
	-	-	4.35%	-	4.35%
- Notional value of liabilities derivative financial instruments	47,864	-	167,136	-	215,000
	0.74%	-	6.07%	-	4.88%
	<b>(47,864)</b>	<b>-</b>	<b>47,864</b>	<b>-</b>	<b>-</b>
<b>Net 2009 gap position</b>	<b>\$ 2,001,253</b>	<b>\$ (1,565,766)</b>	<b>\$ 866,252</b>	<b>\$ (1,301,739)</b>	<b>\$ -</b>
Net 2008 gap position	\$ 848,747	\$ (1,288,914)	\$ 1,723,349	\$ (1,283,182)	\$ -

## 8. Patronage, Common Share 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.

**SERVUS CREDIT UNION LTD.**  
**Notes to Interim Consolidated Financial Statements**  
For the period ended April 30, 2009  
(\$ thousands)  
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## 9. Equity Investments

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 April 30, 2009, the carrying value of the investment in Central included in Investments on the Consolidated Balance Sheet is \$103,875. Included in Investment income for the period November 1, 2008 to April 30, 2009 is equity income from the investment in Central of \$1,340. The investment in Central has been classified as being available-for-sale.

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## 10. 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.

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## 11. Subsequent Events

- (a) The Credit Union will repurchase approximately \$20 million of member mortgages via the Canadian Mortgage Bond program after determining that they are no longer eligible under the Program (Note 4). The Credit Union has not yet determined the impact of repurchasing these mortgages on the Consolidated Statement of Income and Comprehensive Income.
  - (b) Effective June 1, 2009, the Credit Union has a credit facility agreement with Credit Union Central of Alberta (Central) in the aggregate amount of \$600,000 (previously \$950,000) comprising a revolving demand operating line of credit (line of credit), a letter of credit and revolving term loans (Note 5).
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## 12. Comparative Figures

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

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