

SERVUS CREDIT UNION LTD.

Interim Consolidated Financial Statements

Nine Month Period Ended July 31, 2009

(unaudited)

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

(\$ thousands)	Notes	July 31, 2009	October 31, 2008
Assets			
Cash		\$ 100,393	\$ 54,893
Investments	8	882,055	880,720
Member loans	2,3,4	8,786,597	8,351,454
Property and equipment		207,579	198,659
Other assets		30,132	31,585
		\$ 10,006,756	\$ 9,517,311
Liabilities			
Member deposits		\$ 9,141,943	\$ 8,654,275
Term loans payable	5	19,585	79,882
Accounts payable and other liabilities		89,691	87,953
		9,251,219	8,822,110
Guarantees and commitments	6		
Member Equity			
Share capital	1	402,689	381,615
Retained earnings		352,498	312,797
Accumulated other comprehensive income		350	789
		755,537	695,201
		\$ 10,006,756	\$ 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 July 31, 2009	Three Months Ended July 31, 2008	Nine Months Ended July 31, 2009	Nine Months Ended July 31, 2008
Interest Income					
Member loans		\$ 101,344	\$ 115,982	\$ 315,782	\$ 350,310
Investments	8	3,049	8,106	15,010	29,326
		104,393	124,088	330,792	379,636
Interest Expense					
Member deposits		40,610	56,495	134,177	175,204
Term loans payable		228	2,336	2,264	10,521
		40,838	58,831	136,441	185,725
Net Interest Income					
Provision for credit losses	3	63,555	65,257	194,351	193,911
		3,526	537	8,808	3,161
Net interest income after provision for credit losses		60,029	64,720	185,543	190,750
Other Income					
		19,087	20,956	54,017	60,258
Net interest and other income		79,116	85,676	239,560	251,008
Operating Expenses					
Personnel		31,989	33,103	96,719	92,826
General		10,295	11,638	32,040	32,640
Occupancy		5,410	4,935	15,836	13,595
Member security		4,386	4,138	12,295	11,853
Depreciation		3,410	3,841	10,104	10,071
Organization		954	1,159	2,633	3,141
		56,444	58,814	169,627	164,126
Income before patronage allocation to members and income taxes					
		22,672	26,862	69,933	86,882
Patronage allocation to members	7	4,412	3,759	13,605	11,276
Income before income taxes		18,260	23,103	56,328	75,606
Income taxes		3,622	2,710	11,739	14,784
Operating net income		14,638	20,393	44,589	60,822
Extraordinary gain	8	-	-	7,349	-
Net income		14,638	20,393	51,938	60,822
Other comprehensive income, net of taxes					
Change in unrealized gain and (loss) on investments available for sale ¹		(1,012)	(407)	18	(91)
Comprehensive Income		\$ 13,626	\$ 19,986	\$ 51,956	\$ 60,731

¹ Net of future income taxes of \$269 for the three months ended July 31, 2009 (2008 - \$60) and \$5 for the nine months ended July 31, 2009 (2008 - \$1).

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)	Notes	Three Months Ended July 31, 2009	Three Months Ended July 31, 2008	Nine Months Ended July 31, 2009	Nine Months Ended July 31, 2008
Common Shares					
Balance, beginning of period	1	\$ 294,282	\$ 272,897	\$ 267,878	\$ 249,820
Distribution of dividends declared in prior period		-	-	13,316	12,792
Issued and redeemed for cash, net		2,864	2,466	8,649	6,351
Provision for dividends distributable	7	3,911	650	11,214	7,050
Balance, end of period		<u>301,057</u>	<u>276,013</u>	<u>301,057</u>	<u>276,013</u>
Investment Shares					
Balance, beginning of period	1	101,200	98,677	95,494	92,936
Distribution of dividends declared in prior period		-	-	4,927	5,694
Issued and redeemed for cash, net		(595)	(687)	(3,081)	(3,723)
Provision for dividends distributable	7	1,027	(545)	4,292	2,538
Balance, end of period		<u>101,632</u>	<u>97,445</u>	<u>101,632</u>	<u>97,445</u>
Share Capital, End of Period		<u>\$ 402,689</u>	<u>\$ 373,458</u>	<u>\$ 402,689</u>	<u>\$ 373,458</u>
Retained Earnings					
Balance, beginning of period		341,755	301,107	312,797	267,569
Net income		14,638	20,393	51,938	60,822
Provisions for dividends on share capital	7	(4,938)	(105)	(15,506)	(9,588)
Income tax recovery thereon		1,043	89	3,269	2,681
Balance, end of period		<u>352,498</u>	<u>321,484</u>	<u>352,498</u>	<u>321,484</u>
Accumulated Other Comprehensive Income, Net of Taxes					
Balance, beginning of period ¹		1,466	316	789	88
Reclassification of gain and (loss) on investments available for sale ²		(104)	-	(457)	(88)
Other comprehensive income for the period ³		(1,012)	(407)	18	(91)
Balance, end of period		<u>350</u>	<u>(91)</u>	<u>350</u>	<u>(91)</u>
Member Equity, End of Period		<u>\$ 755,537</u>	<u>\$ 694,851</u>	<u>\$ 755,537</u>	<u>\$ 694,851</u>

¹ Net of future income taxes of \$390 for the three months ended July 31, 2009 (2008 - \$84) and \$210 for the nine months ended July 31, 2009 (2008 - \$23).

² Net of future income taxes of \$27 for the three months ended July 31, 2009 (2008 - nil) and \$121 for the nine months ended July 31, 2009 (2008 - nil).

³ Net of future income taxes of \$269 for the three months ended July 31, 2009 (2008 - \$60) and \$5 for the nine months ended July 31, 2009 (2008 - \$1).

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

	Three Months Ended July 31, 2009	Three Months Ended July 31, 2008	Nine Months Ended July 31, 2009	Nine Months Ended July 31, 2008
(\$ thousands)				
Cash Flows From (Used in) Operating Activities				
Operating net income	\$ 14,638	\$ 20,393	\$ 44,589	\$ 60,822
Adjustments for:				
Depreciation	3,410	3,841	10,104	10,071
Provision for credit losses	3,526	537	8,808	3,161
Provision for patronage allocation to members	4,412	3,759	13,605	11,276
Realized (gain)/loss on investments available for sale	131	(105)	578	6
Investment income - equity method	(631)	-	(1,971)	-
(Gain)/loss on sale of property and equipment	24	13	4	(816)
(Gain)/loss on securitization of residential mortgages	-	193	(3,769)	(4,356)
Net change in other assets and accounts payable and other liabilities	(7,283)	(8,994)	(10,530)	(24,367)
Net change in accrued interest on member loans	194	(195)	2,967	1,163
Net change in accrued interest on member deposits	5,684	11,599	(14,812)	6,884
Net change in accrued interest on investments	1,203	2,431	2,740	6,027
	<u>25,308</u>	<u>33,472</u>	<u>52,313</u>	<u>69,871</u>
Cash Flows From (Used in) Investing Activities				
Additions to property and equipment	(7,717)	(49,400)	(19,424)	(64,022)
Proceeds on disposal of property and equipment	4	78	396	2,266
Member loans, net	(227,676)	(286,917)	(521,381)	(841,872)
Proceeds on purchase of residential mortgages	18,938	-	18,938	-
Investments, net	(11,650)	(132,455)	4,344	(184,778)
	<u>(228,101)</u>	<u>(468,694)</u>	<u>(517,127)</u>	<u>(1,088,406)</u>
Cash Flows From (Used in) Financing Activities				
Advances of term loans payable	30,000	6,000	220,000	195,000
Repayment of term loans payable	(36,875)	(191,556)	(280,297)	(480,599)
Proceeds from securitization of residential mortgages	-	42,631	59,294	255,594
Member deposits	55,279	604,220	502,480	1,090,050
Shares, issued and redeemed, net	2,269	1,779	5,568	2,628
Income tax recovery on share capital	1,043	89	3,269	2,681
	<u>51,716</u>	<u>463,163</u>	<u>510,314</u>	<u>1,065,354</u>
(Decrease) Increase in Cash	<u>(151,077)</u>	<u>27,941</u>	<u>45,500</u>	<u>46,819</u>
Cash, beginning of period	<u>251,470</u>	<u>44,061</u>	<u>54,893</u>	<u>25,183</u>
Cash, End of Period	<u>\$ 100,393</u>	<u>\$ 72,002</u>	<u>\$ 100,393</u>	<u>\$ 72,002</u>
Supplementary cash flow information				
Interest paid during the period	\$ 90,000	\$ 114,943	\$ 151,253	\$ 178,841
Interest and dividends received during the period	210,784	248,145	335,106	386,832
Income taxes paid during the period	11,398	2,001	15,655	13,745

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 July 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 Credit Union 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 July 31, 2009	Gross Amount	Allowance for Credit Losses		Net Amount	Gross Impaired Loans
		Specific	General		
Consumer loans	\$ 1,188,060	\$ 3,548	\$ 6,436	\$ 1,178,076	\$ 13,488
Residential mortgages	4,615,018	129	1,258	4,613,631	19,086
Commercial mortgages and loans	2,707,485	4,578	7,435	2,695,472	28,141
Agricultural mortgages and loans	269,080	100	500	268,480	5,511
Foreclosed assets	1,982	-	-	1,982	1,982
	8,781,625	8,355	15,629	8,757,641	68,208
Accrued interest	28,956	-	-	28,956	-
Total	\$ 8,810,581	\$ 8,355	\$ 15,629	\$ 8,786,597	\$ 68,208

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:

	Nine Months Ended July 31, 2009	Twelve Months Ended October 31, 2008
Balance, beginning of period	\$ 17,594	\$ 16,917
Loans written offs	(2,863)	(4,396)
Recoveries of amounts written offs in prior years	445	859
Provision for credit losses	8,808	4,214
Balance, end of period	\$ 23,984	\$ 17,594

4. Securitization and Purchase of Residential Mortgages

The Credit Union periodically enters into agreements to fund loan growth and manage liquidity by selling and purchasing residential mortgages to or from unrelated third parties.

The Credit Union retains the contractual obligation to service these mortgages as part of these 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, as holders of the securitized mortgages, have recourse only to a cash collateral account and cash flow from the securitized mortgages. The investors and the third parties have no recourse to the Credit Union's Other assets.

Securitization

During the nine month period ended July 31, 2009, the Credit Union sold \$58,996 (2008 - \$255,321) of residential mortgages with a gain on sale of \$3,769 (2008 - \$4,356) being recognized in the Consolidated Statement of Income and Comprehensive Income as Other income.

The following table summarizes the Credit Union's securitization activity for the interim period:

	Three Months Ended 31-Jul-09	Three Months Ended 31-Jul-08	Nine Months Ended 31-Jul-09	Nine Months Ended 31-Jul-08
Principal value of mortgages sold	\$ -	\$ 42,662	\$ 58,996	\$ 255,321
Net cash proceeds received	-	42,631	59,294	255,594
Retained rights to future excess spread	-	1,511	4,296	7,546
Retained servicing liability	-	(199)	(268)	(1,040)
Direct transaction costs	-	(113)	(258)	(789)
Gain on sale before income taxes	-	1,653	3,769	4,356

Key economic assumptions for securitization activity

The key economic assumptions used to value the retained rights to future excess spread as at the date of sale for the interim period were:

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

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4. Securitization and Purchase of Residential Mortgages (continued)

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

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 residential mortgages 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 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	24.2%	(\$238)
Prepayment rate 20% higher	26.4%	(\$416)

The discount rates vary between 2.05% to 5.6%. A 10% and 20% change in the discount rate would have the following impact to the value of the Retained rights to future excess spread.

	Discount rate	Change in value
Discount rate 10% higher	2.255% - 6.16%	(\$1,235)
Discount rate 20 % higher	2.46% - 6.72%	(\$2,256)

These sensitivities are hypothetical and should be used with caution. Changes in fair value based on a variation of assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair value of retained interests is calculated without changing any other assumption; generally, changes in one factor may result in changes in another, which may magnify or counteract the sensitivities.

As of July 31, 2009, the total retained rights to future excess spread on all previous securitization was \$5,636 (2008-\$7,546) and 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. As of July 31, 2009, the Credit Union has increased its prepayment rate from 15% to 22% which resulted in a decreased in retained rights to future excess spread of \$738 which had been recognized in the Consolidated Statement of Income and Comprehensive Income as a reduction to Other income. Refer to sensitivity to key assumptions above.

As of July 31, 2009, the servicing liability was \$723 (2008 - \$1,040) and is recorded in Accounts payable and accrued liabilities on the Consolidated Balance Sheet.

Purchase

During the nine months ended July 31, 2009, the Credit Union purchased \$18,938 (2008 - \$nil) residential mortgages. The impact of the purchase of these mortgages was a fair value adjustment of \$617 which had been recognized in the Consolidated Balance Sheet as Member loans and is to be amortized over the term of the residential mortgages using the effective interest method. The fair value adjustment is classified as loans and receivables.

The following table summarizes the Credit Union's purchase of residential mortgages for the interim period:

	Three Months Ended 31-Jul-09	Three Months Ended 31-Jul-08	Nine Months Ended 31-Jul-09	Nine Months Ended 31-Jul-08
Principal value of mortgages purchased	\$ 18,938	\$ -	\$ 18,938	\$ -
Net cash proceeds paid	18,938	-	18,938	-
Fair value adjustment of mortgages purchased	617	-	617	-
Retained servicing liability	88	-	88	-

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5. Term Loans Payable

The Credit Union has a credit facility agreement with Credit Union Central of Alberta (Central) in the aggregate amount of \$600,000 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 July 31, 2009, the Credit Union has \$19,585 (October 31, 2008 – \$79,882) outstanding in revolving loans with \$1 (October 31, 2008 - \$55) in accrued interest. The entire \$19,585 is repayable within 9 months.

The Credit Union has a letter of credit with Central for US \$3,000 (Cdn \$3,318) 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).

6. Guarantees and Commitments

As at July 31, 2009, the Credit Union has \$2,740,471 (October 31, 2008 - \$2,559,273) in standby letters of credit, letters of guarantee and commitment to extend credit on behalf of members.

7. 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.

8. 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 July 31, 2009, the carrying value of the investment in Central included in Investments on the Consolidated Balance Sheet is \$104,506. Included in Investment income for the period November 1, 2008 to July 31, 2009 is equity income from the investment in Central of \$1,971. The investment in Central has been classified as being available-for-sale.

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9. 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	\$ 85,692	\$ -	\$ -	\$ 14,701	\$ 100,393
Investments	111,721	737,424	18,507	14,403	882,055
<i>Effective yield</i>	1.87%	0.78%	5.33%	-	1.00%
Member loans	3,957,859	1,258,233	3,554,608	15,897	8,786,597
<i>Effective yield</i>	3.22%	5.59%	5.80%	-	4.60%
Other	-	-	-	237,711	237,711
	4,155,272	1,995,657	3,573,115	282,712	10,006,756
Member deposits	2,662,713	3,371,791	2,419,022	688,417	9,141,943
<i>Effective yield</i>	0.51%	1.85%	3.28%	-	1.70%
Other Liabilities	1	19,584	-	89,691	109,276
<i>Effective yield</i>	4.46%	3.44%	-	-	0.63%
Equity	-	-	-	755,537	755,537
	2,662,714	3,391,375	2,419,022	1,533,645	10,006,756
- Notional value of asset derivative financial instruments	-	-	-	-	-
- Notional value of liabilities derivative financial instruments	-	-	-	-	-
	-	-	-	-	-
Net 2009 gap position	\$ 1,492,558	\$ (1,395,718)	\$ 1,154,093	\$ (1,250,933)	\$ -
Net 2008 gap position	\$ 848,747	\$ (1,288,914)	\$ 1,723,349	\$ (1,283,182)	\$ -

10. Subsequent Event

On July 22, the members of Apex Credit Union voted to amalgamate with Servus Credit Union effective November 1, 2009. Apex Credit Union has total assets of approximately \$90,000 and is in the business of personal and commercial banking with four locations serving about 5,000 members in Calgary.

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11. 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.

12. Comparative Figures

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