

SERVUS CREDIT UNION LTD.

Interim Consolidated Financial Statements

Nine Month Period Ended July 31, 2010

(unaudited)

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

<i>(\$ thousands)</i>	Note	<u>July 31, 2010</u>	<u>October 31, 2009</u>
Assets			
Cash		\$ 142,172	\$ 175,487
Investments		1,094,213	833,375
Member loans		9,296,566	8,901,715
Property and equipment		220,612	211,355
Other assets		45,209	41,616
		<u>\$ 10,798,772</u>	<u>\$ 10,163,548</u>
Liabilities			
Member deposits		\$ 9,815,561	\$ 9,252,672
Term loans payable		66,140	13,186
Accounts payable and other liabilities		97,627	133,037
		<u>9,979,328</u>	<u>9,398,895</u>
Guarantees, commitments and contingent liabilities	3		
Member Equity			
Share capital		433,869	406,740
Retained earnings		385,575	357,913
		<u>819,444</u>	<u>764,653</u>
		<u>\$ 10,798,772</u>	<u>\$ 10,163,548</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)	Note	Three Months Ended July 31, 2010	Three Months Ended July 31, 2009	Nine Months Ended July 31, 2010	Nine Months Ended July 31, 2009
Interest Income					
Member loans		\$ 105,625	\$ 101,344	\$ 309,493	\$ 315,782
Investments		1,918	3,049	6,547	15,010
Total interest income		<u>107,543</u>	<u>104,393</u>	<u>316,040</u>	<u>330,792</u>
Interest Expense					
Member deposits		35,494	40,610	103,277	134,177
Term loans		668	228	1,681	2,264
Total interest expense		<u>36,162</u>	<u>40,838</u>	<u>104,958</u>	<u>136,441</u>
Net Interest Income					
		71,381	63,555	211,082	194,351
Provision for credit losses		1,334	3,526	4,879	8,808
Net interest income after provision for credit losses		<u>70,047</u>	<u>60,029</u>	<u>206,203</u>	<u>185,543</u>
Other Income					
		17,037	19,087	53,328	54,017
Net interest income and other income		<u>87,084</u>	<u>79,116</u>	<u>259,531</u>	<u>239,560</u>
Operating Expenses					
Personnel		37,857	31,989	110,241	96,719
General	2	13,206	10,295	39,821	32,040
Occupancy		4,457	5,410	13,361	15,836
Member security		4,673	4,386	13,762	12,295
Depreciation and amortization		3,921	3,410	11,463	10,104
Organization		1,058	954	3,141	2,633
Total operating expenses		<u>65,172</u>	<u>56,444</u>	<u>191,789</u>	<u>169,627</u>
Income before patronage allocation to members and income taxes					
		21,912	22,672	67,742	69,933
Patronage allocation to members	4	5,500	4,412	16,500	13,605
Income before income taxes		<u>16,412</u>	<u>18,260</u>	<u>51,242</u>	<u>56,328</u>
Income taxes		3,476	3,622	10,761	11,739
Operating net income		<u>12,936</u>	<u>14,638</u>	<u>40,481</u>	<u>44,589</u>
Extraordinary gain		-	-	-	7,349
Net income and comprehensive income		<u>\$ 12,936</u>	<u>\$ 14,638</u>	<u>\$ 40,481</u>	<u>\$ 51,938</u>

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>	Note	Three Months Ended July 31, 2010	Three Months Ended July 31, 2009	Nine Months Ended July 31, 2010	Nine Months Ended July 31, 2009
Share Capital					
Balance, beginning period		\$ 426,244	\$ 395,482	\$ 406,740	\$ 381,615
Common Shares					
Balance, beginning of period		322,499	294,282	303,950	281,194
Issued and redeemed for cash, net		3,133	2,864	13,949	8,649
Provision for dividends distributable	4	3,866	3,911	11,599	11,214
Balance, end of period		<u>329,498</u>	<u>301,057</u>	<u>329,498</u>	<u>301,057</u>
Investment Shares					
Balance, beginning of period		103,745	101,200	102,790	100,421
Issued and redeemed for cash, net		(917)	(595)	(3,047)	(3,081)
Provision for dividends distributable	4	1,543	1,027	4,628	4,292
Balance, end of period		<u>104,371</u>	<u>101,632</u>	<u>104,371</u>	<u>101,632</u>
Share Capital, end of period		<u>433,869</u>	<u>402,689</u>	<u>433,869</u>	<u>402,689</u>
Retained Earnings					
Balance, beginning of period		376,914	341,755	357,913	312,797
Net income and comprehensive income		12,936	14,638	40,481	51,938
Provisions for dividends on share capital	4	(5,409)	(4,938)	(16,227)	(15,506)
Income tax recovery thereon		1,134	1,043	3,408	3,269
Balance, end of period		<u>385,575</u>	<u>352,498</u>	<u>385,575</u>	<u>352,498</u>
Member Equity, End of Period		<u>\$ 819,444</u>	<u>\$ 755,187</u>	<u>\$ 819,444</u>	<u>\$ 755,187</u>

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)	Note	Three Months Ended <u>July 31, 2010</u>	Three Months Ended <u>July 31, 2009</u>	Nine Months Ended <u>July 31, 2010</u>	Nine Months Ended <u>July 31, 2009</u>
Cash Flows From (Used in) Operating Activities					
Operating net income		\$ 12,936	\$ 14,638	\$ 40,481	\$ 44,589
Adjustments for:					
Depreciation and amortization		3,921	3,410	11,463	10,104
Provision for credit losses		1,334	3,526	4,879	8,808
Provision for patronage allocation to members		-	4,412	-	13,605
Realized loss on investments available for sale		-	131	-	578
Investment income from equity method investments		(729)	(631)	(3,414)	(1,971)
Gain/(loss) on sale of property and equipment		(38)	24	(442)	4
Gain on sale of member loans		-	-	-	(3,769)
Loss on acquisition of Apex Credit Union Ltd.	2	-	-	1,550	-
Net change in other assets and accounts payable and other liabilities		(20,962)	(7,283)	(38,133)	(10,530)
Net change in accrued interest on member loans		(859)	194	(2,518)	2,967
Net change in accrued interest on member deposits		10,047	5,684	(17,283)	(14,812)
Net change in accrued interest on term loans		1	-	(1)	-
Net change in accrued interest on investments		(363)	1,203	131	2,740
		<u>5,288</u>	<u>25,308</u>	<u>(3,287)</u>	<u>52,313</u>
Cash Flows From (Used in) Investing Activities					
Additions to property and equipment		(11,950)	(7,717)	(19,197)	(19,424)
Proceeds on disposal of property and equipment		-	4	826	396
Member loans, net		(95,393)	(227,676)	(327,594)	(521,381)
Investments, net		(214,890)	(11,650)	(248,201)	4,344
Proceeds on purchase of residential mortgages		-	18,938	-	18,938
Cash acquired from business combinations	2	-	-	355	-
		<u>(322,233)</u>	<u>(228,101)</u>	<u>(593,811)</u>	<u>(517,127)</u>
Cash Flows From (Used in) Financing Activities					
Advances of term loans payable		2,346	30,000	286,396	220,000
Repayment of term loans payable		(202,403)	(36,875)	(239,817)	(280,297)
Proceeds from sale of member loans		-	-	-	59,294
Member deposits		475,738	55,279	505,801	502,480
Repayment of obligation under capital lease		(63)	-	(186)	-
Shares, issued and redeemed, net		2,216	2,269	8,181	5,568
Income tax recovery on share capital		1,134	1,043	3,408	3,269
		<u>278,968</u>	<u>51,716</u>	<u>563,783</u>	<u>510,314</u>
Increase in Cash		(37,977)	(151,077)	(33,315)	45,500
Cash, beginning of period		<u>180,149</u>	<u>251,470</u>	<u>175,487</u>	<u>54,893</u>
Cash, End of Period		\$ 142,172	\$ 100,393	\$ 142,172	\$ 100,393
Supplementary cash flow information					
Interest paid during the period		\$ 26,114	\$ 54,846	\$ 122,242	\$ 116,099
Interest and dividends received during the period		105,592	102,684	310,239	217,212
Income taxes paid during the period		2,096	5,313	13,031	9,570

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, 2010
(unaudited)
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1. Basis of Presentation

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, purchase price allocation, fair value of acquired assets and liabilities, the useful life of property, equipment, and intangible assets and accrued liabilities 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, 2009 as set out in the 2009 Annual Report. These financial statements have been prepared in accordance with GAAP, using the same accounting policies as set out in Note 3 to the audited consolidated financial statements of Servus Credit Union for the year ended October 31, 2009.

2. Business Combinations

On November 1, 2009, the Credit Union adopted three new accounting standards issued by the Canadian Institute of Chartered Accountants: Business Combinations (Section 1582), Consolidated Financial Statements (Section 1601) and Non-Controlling Interests (Section 1602).

Business combinations are accounted for using the acquisition method. The acquisition method requires that the acquirer recognizes, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree, at the acquisition date. Acquisition costs directly attributable to the acquisition are expensed in the period. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at fair values at the date of the acquisition, irrespective of the extent of any non-controlling interest.

On November 1, 2009, the Credit Union acquired 100% of Apex Credit Union Ltd. Apex was in the business of personal and commercial banking with four locations serving about 5,000 members in Calgary, Alberta.

The Credit Union exchanged on a one-to-one basis shares with par value of \$2,721. The fair value of the identifiable assets and liabilities of Apex as at the date of the acquisition has been determined on a preliminary basis:

SERVUS CREDIT UNION LTD.
Notes to Interim Consolidated Financial Statements
For the period ended July 31, 2010
(unaudited)
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2. Business Combinations (continued)

Identifiable assets acquired and liabilities assumed

Cash	\$	355
Investments		9,354
Member loans		69,618
Property and equipment		1,907
Other assets		1,198
Current account overdraft		(6,376)
Member deposits		(74,371)
Other liabilities		(514)
Total net identifiable assets and liabilities	\$	1,171

The value of assets acquired and liabilities assumed has been valued at the acquisition date, using fair values. No goodwill was recognized. The Credit Union recorded a loss of \$1,550 which is included in the Operating expenses general on the Consolidated Statement of Income and Comprehensive Income. The loss is due to the par value of shares given in excess of the fair value of net assets received.

3. Guarantees, Commitments and Contingent Liabilities

As at July 31, 2010, the Credit Union has \$2,000,880 (October 31, 2009 - \$1,935,997) in standby letters of credit, letters of guarantee and commitments to extend credit on behalf of members.

Retail Banking System Agreements

The Credit Union is currently operating on three different banking systems. In March 2010, management selected a new banking system which will be implemented over the next 36 months. Management is currently in the planning and negotiation phase of the project. The new banking system project has resulted in the review of the current retail banking system agreements and there could be costs up to \$5,896. As of July 31, 2010, the Credit Union has not recorded any of those costs in the financial statements.

4. Patronage, Common share and Investment Share Allocation to Members

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.

5. Comparative Figures

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