

# **SERVUS CREDIT UNION LTD.**

## **Interim Condensed Consolidated Financial Statements**

**For the six months ended**

**April 30, 2012**

**(unaudited)**

### **NOTICE OF NO AUDITOR REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

The accompanying unaudited interim condensed consolidated financial statements ("financial statements") of Servus Credit Union Ltd (the "Credit Union") have been prepared by and are the responsibility of the Credit Union's management.

The Credit Union's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

**SERVUS CREDIT UNION LTD.**  
**Interim Condensed Consolidated Financial Statements**

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**SERVUS CREDIT UNION LTD.**  
**Interim Condensed Consolidated Statement of Financial Position**  
**(C\$ thousands)**  
**(unaudited)**

	Notes	<u>April 30 2012</u>	<u>October 31 2011</u>	<u>November 1 2010</u>
<b>Assets</b>				
Cash and cash equivalents	6	\$ 152,813	\$ 118,667	\$ 144,231
Investments		923,048	770,030	890,647
Members' loans	7,8,9	10,113,831	9,957,017	9,364,724
Assets held for sale		14,129	19,291	19,345
Income taxes receivable		-	8,647	13,774
Other assets		16,185	11,757	14,220
Property and equipment		187,824	189,222	193,454
Investment property		10,550	10,727	5,466
Intangible assets		19,706	11,213	11,610
Deferred income tax assets		179	179	249
Derivative financial assets	10	21,485	20,994	19,015
Investments in associates		133,119	125,279	115,901
<b>Total assets</b>		<b>\$ 11,592,869</b>	<b>\$ 11,243,023</b>	<b>\$ 10,792,636</b>
<b>Liabilities</b>				
Members' deposits		\$ 10,507,752	\$ 10,204,124	\$ 9,828,026
Trade payables and other liabilities		133,710	134,052	113,909
Income taxes payable		5,816	450	-
Provisions	11	1,875	5,533	1,500
Defined benefit plans		6,964	7,120	7,265
Deferred income tax liabilities		1,700	1,700	3,116
Derivative financial liabilities	10	36	15	73
Investment share redemption liability		471	471	485
<b>Total liabilities</b>		<b>\$ 10,658,324</b>	<b>\$ 10,353,465</b>	<b>\$ 9,954,374</b>
<b>Members' Equity</b>				
Share capital		474,806	464,425	439,482
Retained earnings		458,069	423,463	398,215
Accumulated other comprehensive income		636	636	565
<b>Total equity attributable to equity holders of the Credit Union</b>		<b>933,511</b>	<b>888,524</b>	<b>838,262</b>
Non-controlling interest		1,034	1,034	-
<b>Total members' equity</b>		<b>\$ 934,545</b>	<b>\$ 889,558</b>	<b>\$ 838,262</b>
<b>Total liabilities and members' equity</b>		<b>\$ 11,592,869</b>	<b>\$ 11,243,023</b>	<b>\$ 10,792,636</b>

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

**SERVUS CREDIT UNION LTD.**  
**Interim Condensed Consolidated Statement of Income and Comprehensive Income**  
**(C\$ thousands)**  
**(unaudited)**

	Notes	<b>3-months ended April 30 2012</b>	3-months ended April 30 2011	<b>6-months ended April 30 2012</b>	6-months ended April 30 2011
<b>Interest Income</b>					
Members' loans		\$ 108,638	\$ 107,554	\$ 221,810	\$ 219,015
Investments	13	1,003	2,348	3,491	4,571
<b>Total interest income</b>		<b>\$ 109,641</b>	<b>\$ 109,902</b>	<b>\$ 225,301</b>	<b>\$ 223,586</b>
<b>Interest Expense</b>					
Members' deposits		33,164	36,854	67,901	74,438
Other interest expense		132	79	398	139
<b>Total interest expense</b>		<b>\$ 33,296</b>	<b>\$ 36,933</b>	<b>\$ 68,299</b>	<b>\$ 74,577</b>
<b>Net interest income</b>		<b>76,345</b>	<b>72,969</b>	<b>157,002</b>	<b>149,009</b>
Other income	13	19,433	20,311	37,078	38,702
<b>Net interest and other income</b>		<b>95,778</b>	<b>93,280</b>	<b>194,080</b>	<b>187,711</b>
Provision for credit losses	8	3,676	8,928	5,524	10,611
<b>Net interest income after provision for credit losses</b>		<b>92,102</b>	<b>84,352</b>	<b>188,556</b>	<b>177,100</b>
Net income from investments in associates		3,340	1,641	5,456	4,627
<b>Net interest income and other income</b>		<b>\$ 95,442</b>	<b>\$ 85,993</b>	<b>\$ 194,012</b>	<b>\$ 181,727</b>
<b>Operating Expenses</b>					
Personnel		42,291	37,502	81,208	74,097
General		10,764	16,582	26,134	31,073
Occupancy		4,659	4,676	9,337	9,081
Member security		4,452	4,281	8,860	9,081
Depreciation		3,862	3,468	7,563	7,253
Organization		704	1,168	1,819	2,296
Amortization		452	743	679	1,301
Impairment of intangible assets	12	-	-	381	-
<b>Total operating expenses</b>		<b>\$ 67,184</b>	<b>\$ 68,420</b>	<b>\$ 135,981</b>	<b>\$ 134,182</b>
Income before patronage allocation to members and income taxes		28,258	17,573	58,031	47,545
Patronage allocation to members		6,872	6,250	13,677	12,500
Income before income taxes		21,386	11,323	44,354	35,045
Income taxes		6,070	3,620	9,748	7,386
<b>Net income</b>		<b>15,316</b>	<b>7,703</b>	<b>34,606</b>	<b>27,659</b>
<b>Other comprehensive income</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net income and comprehensive income</b>		<b>\$ 15,316</b>	<b>\$ 7,703</b>	<b>\$ 34,606</b>	<b>\$ 27,659</b>
<b>Net income and comprehensive income attributable to:</b>					
Members of the Credit Union		\$ 15,316	\$ 7,703	\$ 34,606	\$ 27,659
Non-controlling interest		-	-	-	-

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

**SERVUS CREDIT UNION LTD.**  
**Interim Condensed Consolidated Statement of Changes in Members' Equity**  
**(C\$ thousands)**  
**(unaudited)**

	6-months ended April 30 2012	6-months ended April 30 2011
<b>Share Capital</b>		
<b>Common Shares</b>		
Balance, beginning of period	\$ 358,078	\$ 334,745
Issued and redeemed for cash, net	11,927	1,179
Balance, end of period	\$ 370,005	\$ 335,924
<b>Investment Shares</b>		
Balance, beginning of period	\$ 106,347	\$ 104,737
Issued and redeemed for cash, net	(1,546)	(2,297)
Balance, end of period	\$ 104,801	\$ 102,440
<b>Share Capital, end of period</b>	<b>\$ 474,806</b>	<b>\$ 438,364</b>
<b>Retained Earnings</b>		
Balance, beginning of period	\$ 423,463	\$ 398,215
Net income	34,606	27,659
<b>Retained Earnings, end of period</b>	<b>\$ 458,069</b>	<b>\$ 425,874</b>
<b>Accumulated Other Comprehensive Income (AOCI)</b>		
Balance, beginning of period	\$ 636	\$ 565
<b>AOCI, end of period</b>	<b>\$ 636</b>	<b>\$ 565</b>
<b>Total Equity Attributable To Equity Holders of the Credit Union</b>		
<b>Non-Controlling Interest</b>		
Balance, beginning of period	\$ 1,034	\$ -
<b>Non-Controlling Interest, end of period</b>	<b>\$ 1,034</b>	<b>\$ -</b>
<b>Total Members' Equity</b>	<b>\$ 934,545</b>	<b>\$ 864,803</b>

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

**SERVUS CREDIT UNION LTD.**  
**Interim Condensed Consolidated Statement of Cash Flows**  
**(C\$ thousands)**  
**(unaudited)**

	6-months ended April 30 2012	6-months ended April 30 2011
<b>Cash Flows From (Used in) Operating Activities</b>		
<b>Net income</b>	\$ 34,606	\$ 27,659
<b>Adjustments for non-cash items and others</b>		
Net interest income	(157,026)	(146,461)
Net interest receivable and payable	(9,521)	(4,841)
Unrealized gain on financial instruments	21	(2,548)
Provision for credit losses	5,524	10,611
Net income from investments in associates	(4,398)	(6,588)
Depreciation and amortization	8,242	8,554
Impairment of intangible assets	381	-
Loss on foreclosed properties	805	-
Gain on sale of property and equipment	(551)	1,067
Income taxes	9,748	7,386
<b>Adjustments for net changes in operating assets and liabilities</b>		
Change in members' loans	(162,626)	(193,785)
Change in members' deposits	311,129	194,146
Change in foreclosed assets	3,808	(1,771)
Change in derivatives	(491)	(1,431)
Net change in other assets and trade payables and other liabilities	(8,450)	(21,253)
Income taxes received and paid	4,265	(4,572)
Interest received	226,114	221,038
Interest paid	(68,299)	(74,577)
Dividend received	1,058	1,598
<b>Net cash from operating activities</b>	<b>194,339</b>	<b>14,232</b>
<b>Cash Flows From (Used in) Investing Activities</b>		
Additions to intangible assets	(9,553)	(4,940)
Additions to property and equipment and investment property	(6,895)	(1,452)
Proceeds on investments in associates	-	1,011
Proceeds on disposal of property and equipment, investment property and assets held for sale	2,007	162
Purchase of CUCA shares	(4,500)	-
Investments	(151,499)	(5,018)
<b>Net cash from (used in) investing activities</b>	<b>(170,440)</b>	<b>(10,237)</b>
<b>Cash Flows From (Used in) Financing Activities</b>		
Repayment of obligation under finance leases	(134)	(129)
Tax recovery on dividends paid	-	1,081
Shares, issued and redeemed, net	10,381	(2,199)
<b>Net cash from (used in) in financing activities</b>	<b>10,247</b>	<b>(1,247)</b>
<b>Increase in Cash and cash equivalents</b>	<b>34,146</b>	<b>2,748</b>
Cash and cash equivalents, beginning of period	118,667	144,231
<b>Cash and cash equivalents, End of period</b>	<b>\$ 152,813</b>	<b>\$ 146,979</b>

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

**SERVUS CREDIT UNION LTD.**  
**Notes to Interim Condensed Consolidated Financial Statements**  
**For the six months ended April 30, 2012**  
**(C\$ thousands)**  
**(unaudited)**

## **1. REPORTING ENTITY**

Servus Credit Union Ltd. (“Servus” or the “Credit Union”) is incorporated in Canada under the Credit Union Act of the Province of Alberta. The address of the Credit Union’s registered office is 151 Karl Clark Road, Edmonton, Alberta. The Credit Union operates in the loans and deposit taking industry regulated under the Credit Union Act of Alberta. The Credit Union serves members across Alberta.

The Credit Union Deposit Guarantee Corporation (the “Corporation”), a provincial corporation, guarantees the repayment of all deposits with Alberta credit unions, including accrued interest. The Credit Union Act provides that the Province will ensure that the Corporation carries out this obligation.

## **2. BASIS OF PRESENTATION**

### **Application of International Financial Reporting Standards (‘IFRS’)**

These interim condensed consolidated financial statements (the “financial statements”) of the Credit Union have been prepared by management in accordance with International Accounting Standard (“IAS”) 34 Interim Financial Reporting as issued by the International Accounting Standard Board (“IASB”) and using the accounting policies the Credit Union expects to adopt in its consolidated financial statements for the year ending October 31, 2012.

The Credit Union is a first-time adopter of International Financial Reporting Standards (“IFRS”) and has followed the requirements of IFRS 1 *First Time Adoption of IFRS* (“IFRS 1”) in its initial application of IFRS as disclosed in note 5 to these financial statements. IFRS requires an entity to adopt IFRS in its first annual financial statements under IFRS by making an explicit and unreserved statement in those financial statements of compliance with IFRS. The Credit Union will make this statement when it issues its 2012 annual financial statements.

IFRS 1 provides specific recognition, measurement, presentation and disclosure requirements for any entity preparing its first set of consolidated financial statements in accordance with IFRS. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Credit Union is provided in note 5.

The comparative figures presented in these financial statements have been restated to conform to the new accounting framework. These statements should be read in conjunction with the audited consolidated financial statements for the year ended October 31, 2011 prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”).

### **Basis of Measurement**

The financial statements have been prepared using the historical cost basis except for the following:

- Derivative and other financial instruments that are classified as held at fair value through profit or loss. These instruments are measured at their fair value.
- Defined benefit post retirement benefit obligations are measured at their present value.

### **Functional Currency**

The financial statements are presented in Canadian dollars (“C\$”), which is the Credit Union’s functional currency.

**SERVUS CREDIT UNION LTD.**  
**Notes to Interim Condensed Consolidated Financial Statements**  
**For the six months ended April 30, 2012**  
**(C\$ thousands)**  
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**Use of Estimates, Assumptions and Judgements**

The preparation of the financial statements requires management to make estimates, assumptions and judgements that affect the application of accounting policies and the reported amounts of assets, liabilities, income, expenses, and the related disclosures. Estimates and underlying assumptions required under IFRS are best estimates undertaken in accordance with the applicable standard and are reviewed on a continuous basis.

The use of estimates and assumptions have been made in the following areas: income taxes, deferred tax assets and liabilities, fair values used in purchase price allocation, fair value of financial instruments, allowance for credit losses, measurement of provisions and the useful life of property, equipment, intangible assets, defined benefit plans and the fair value less costs to sell of assets held for sale. Actual results may differ significantly from these estimates and the impact of any such differences will be recorded in future periods.

**Critical Judgements**

The preparation of the financial statements requires management to make critical judgements that affect the carrying amounts of certain assets, liabilities, income, expenses, and the related disclosures during the period. Critical judgements have been made in the following areas: impairment of non-financial and financial assets, allowance of credit losses, leases classification, consolidation of Special Purpose Entities (SPEs), identification of net assets acquired in business combinations and accounting of investment in associates.

**3. SIGNIFICANT ACCOUNTING POLICIES**

These financial statements of the Credit Union should be read in conjunction with the interim condensed consolidated financial statements of Credit Union for the three months ended January 31, 2012. The Credit Union's significant accounting policies under IFRS remain unchanged from those disclosed in the January 31, 2012 interim condensed consolidated financial statements. These significant accounting policies have been applied consistently to all periods presented in these financial statements and in preparing the opening IFRS statement of financial position of November 1, 2010 for purposes of the transition to IFRS.

**4. FUTURE ACCOUNTING CHANGES**

The Credit Union continues to monitor the proposed changes to accounting standards. Although not expected to materially impact the Credit Union's annual consolidated financial statements for the year ended October 31, 2012, these proposed changes may have a significant impact on the future financial statements. Additional discussion on certain accounting standards that may impact the Credit Union was included in the interim condensed consolidated financial statements of the Credit Union for the three months ended January 31, 2012.



**SERVUS CREDIT UNION LTD.**  
**Notes to Interim Condensed Consolidated Financial Statements**  
**For the six months ended April 30, 2012**  
**(C\$ thousands)**  
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## **5. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS**

The Credit Union has adopted IFRS effective November 1, 2010 (“date of transition”). Prior to the adoption of IFRS, the Credit Union prepared its consolidated financial statements in accordance with Canadian GAAP. The Credit Union’s consolidated financial statements for the year ended October 31, 2012 will be the first annual consolidated financial statements that comply with IFRS. Accordingly the Credit Union will make an unreserved statement of compliance with IFRS beginning with its 2012 annual consolidated financial statements.

The accounting policies applied in these financial statements are based on IFRS issued and outstanding as of June 28, 2012, the date of approval by the Audit and Finance Committee. Any subsequent changes to IFRS that are effective in the Credit Union’s annual consolidated financial statements for the year ended October 31, 2012 could result in restatement of these financial statements, including the transition adjustments recognized on change-over to IFRS.

### **IFRS 1 Optional Exemptions and Mandatory Exceptions**

In preparing these financial statements in accordance with IFRS 1, the Credit Union has applied the following optional exemptions and mandatory exceptions:

#### **Optional Exemptions**

##### ***Business Combinations***

The Credit Union has elected not to retrospectively apply IFRS 3, Business Combinations, to business combinations that occurred prior to November 1, 2009 and such business combinations have not been restated.

##### ***Employee Benefits***

The Credit Union has elected to recognize all cumulative actuarial gains and losses relating to its defined benefit plans as at November 1, 2010 in retained earnings.

##### ***Borrowing Costs***

The Credit Union has elected to apply the transitional provisions of IAS 23, Borrowing Costs, which permits prospective capitalization of borrowing costs on qualifying assets from the date of transition.

#### **Mandatory Exceptions**

##### ***Derecognition of Financial Assets and Liabilities***

The Credit Union has applied the derecognition requirements in IAS 39, Financial Instruments: Recognition and Measurement, prospectively from the transition date. As a result any non-derivative financial assets or non-derivative financial liabilities derecognized in accordance with pre-changeover Canadian GAAP prior to the date of transition have not been restated on transition to IFRS.

##### ***Estimates***

Hindsight has not been used to create or revise estimates and accordingly the estimates made by the Credit Union under IFRS are consistent with estimates made under previous Canadian GAAP.

**SERVUS CREDIT UNION LTD.**  
**Notes to Interim Condensed Consolidated Financial Statements**  
**For the six months ended April 30, 2012**  
**(C\$ thousands)**  
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**Consolidated Statement of Financial Position as at October 31, 2011**

	<b>Canadian GAAP</b>	<b>Measurement Adjustments Refer to (a) to (h)</b>	<b>Presentation Adjustments Refer to (1) to (8)</b>	<b>IFRS</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 118,667	-	-	118,667
Investments	770,030	-	-	770,030
Members' loans	9,957,017	-	-	9,957,017
Foreclosed assets (1)	16,136	-	(16,136)	-
Assets held for sale (1)	3,155	-	16,136	19,291
Income taxes receivable (2)	-	-	8,647	8,647
Other assets (2,4,5,6)	32,252	-	(20,495)	11,757
Property and equipment (a,3)	199,380	642	(10,800)	189,222
Investment property (a,3)	-	(73)	10,800	10,727
Intangible assets (b)	13,606	(2,393)	-	11,213
Deferred income tax assets (g,4)	-	-	179	179
Derivative financial assets (c,5)	-	14,015	6,979	20,994
Investments in associates (d)	124,288	991	-	125,279
<b>Total assets</b>	<b>\$ 11,234,531</b>	<b>13,182</b>	<b>(4,690)</b>	<b>\$ 11,243,023</b>
<b>Liabilities</b>				
Members' deposits (6)	10,208,814	-	(4,690)	10,204,124
Trade payables and other liabilities (2,4,5,7,8)	142,444	-	(8,392)	134,052
Income taxes payable (2)	-	-	450	450
Provisions (e,7)	-	3,333	2,200	5,533
Defined benefit plans (f,8)	-	1,393	5,727	7,120
Deferred income tax liabilities (g,4,5)	-	1,700	-	1,700
Derivative financial liabilities (5)	-	-	15	15
Investment share redemption liabilities (h)	-	471	-	471
<b>Total liabilities</b>	<b>\$ 10,351,258</b>	<b>6,897</b>	<b>(4,690)</b>	<b>\$ 10,353,465</b>
<b>Member equity</b>				
Share capital (h)	464,896	(471)	-	464,425
Retained earnings	417,343	6,120	-	423,463
Accumulated other comprehensive income	-	636	-	636
<b>Total equity attributable to equity holders of the Credit Union</b>	<b>882,239</b>	<b>6,285</b>	<b>-</b>	<b>888,524</b>
Non-controlling interest	1,034	-	-	1,034
<b>Total members' equity</b>	<b>883,273</b>	<b>6,285</b>	<b>-</b>	<b>889,558</b>
<b>Total liabilities and equity</b>	<b>\$ 11,234,531</b>	<b>13,182</b>	<b>(4,690)</b>	<b>\$ 11,243,023</b>

**SERVUS CREDIT UNION LTD.**  
**Notes to Interim Condensed Consolidated Financial Statements**  
**For the six months ended April 30, 2012**  
**(C\$ thousands)**  
**(unaudited)**

**Consolidated Statement of Financial Position as at November 1, 2010 date of transition**

	<u>Canadian GAAP</u>	<u>Measurement Adjustments Refer to (a) to (h)</u>	<u>Presentation Adjustments Refer to (1) to (8)</u>	<u>IFRS</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 144,231	-	-	\$ 144,231
Investments	890,647	-	-	890,647
Members' loans	9,364,724	-	-	9,364,724
Foreclosed assets (1)	9,993	-	(9,993)	-
Assets held for sale (1)	9,352	-	9,993	19,345
Income taxes receivable (2)	-	-	13,774	13,774
Other assets (2,4,5,6)	41,290	-	(27,070)	14,220
Property and equipment (a,3)	198,322	675	(5,543)	193,454
Investment property (a,3)	-	(77)	5,543	5,466
Intangible assets (b)	13,112	(1,502)	-	11,610
Deferred income tax assets (g,4)	-	-	249	249
Derivative financial assets (c,5)	-	9,850	9,165	19,015
Investments in associates (d)	115,077	824	-	115,901
<b>Total assets</b>	<b>\$ 10,786,748</b>	<b>9,770</b>	<b>(3,882)</b>	<b>\$ 10,792,636</b>
<b>Liabilities</b>				
Members' deposits (6)	9,831,908	-	(3,882)	9,828,026
Trade payables and other liabilities (2,4,5,7,8)	122,645	-	(8,736)	113,909
Income taxes payable (2)	-	-	-	-
Provisions (e,7)	-	-	1,500	1,500
Defined benefit plans (f,8)	-	1,638	5,627	7,265
Deferred income tax liabilities (g,4,5)	-	1,580	1,536	3,116
Derivative financial liabilities (5)	-	-	73	73
Investment share redemption liabilities (h)	-	485	-	485
<b>Total liabilities</b>	<b>\$ 9,954,553</b>	<b>3,703</b>	<b>(3,882)</b>	<b>\$ 9,954,374</b>
<b>Member equity</b>				
Share capital (h)	439,967	(485)	-	439,482
Retained earnings	392,228	5,987	-	398,215
Accumulated other comprehensive income	-	565	-	565
<b>Total equity attributable to equity holders of the Credit Union</b>	<b>832,195</b>	<b>6,067</b>	<b>-</b>	<b>838,262</b>
Non-controlling interest	-	-	-	-
<b>Total members' equity</b>	<b>832,195</b>	<b>6,067</b>	<b>-</b>	<b>838,262</b>
<b>Total liabilities and equity</b>	<b>\$ 10,786,748</b>	<b>9,770</b>	<b>(3,882)</b>	<b>\$ 10,792,636</b>

**SERVUS CREDIT UNION LTD.**  
**Notes to Interim Condensed Consolidated Financial Statements**  
**For the six months ended April 30, 2012**  
**(C\$ thousands)**  
**(unaudited)**

**Reconciliation of Net Income and Comprehensive Income as Previously Reported under Canadian GAAP to IFRS**

	3-months ended April 30 2011 Refer to (a) to (h)	6-months ended April 30 2011 Refer to (a) to (h)	Year ended October 31 2011 Refer to (a) to (h)
Net income and total comprehensive income as reported under Canadian GAAP	\$ 6,879	\$ 25,815	\$ 40,317
IFRS adjustments net of tax, increase (decrease) to net income			
Property and equipment and investment property (a)	(6)	(14)	(29)
Intangible assets (b)	(141)	(159)	(891)
Derivative financial assets (c)	1,452	2,373	3,291
Investments in associates (d)	35	167	132
Deferred taxes (g)	(516)	(523)	108
Provisions (e)	-	-	(2,633)
Defined benefit plans (f)	-	-	155
Investment shares (h)	-	-	(24)
<b>Net income as reported under IFRS</b>	<b>\$ 7,703</b>	<b>\$ 27,659</b>	<b>\$ 40,426</b>
IFRS adjustments increase (decrease) to other comprehensive income			
Defined benefit plans (g)	-	-	71
Other comprehensive income as reported under IFRS	-	-	71
Comprehensive income as reported under IFRS	<b>\$ 7,703</b>	<b>\$ 27,659</b>	<b>\$ 40,497</b>

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**Reconciliation of Members' Equity as Previously Reported under Canadian GAAP to IFRS**

	October 31 2011 Refer to (a) to (h)	April 30 2011	November 1 2010 Refer to (a) to (h)
Share capital as reported under Canadian GAAP	\$ 464,896	438,835	439,967
IFRS adjustments:			
Classification of member shares	(471)	(471)	(485)
<b>Share capital as reported under IFRS</b>	<b>\$ 464,425</b>	<b>\$ 438,364</b>	<b>\$ 439,482</b>
Retained earnings as reported under Canadian GAAP	\$ 417,343	\$ 418,043	\$ 392,228
IFRS adjustments:			
Increase in fair value of embedded derivatives (c)	14,015	12,223	9,850
Website development costs (b)	(2,393)	(1,661)	(1,502)
Defined benefit plans (f)	(1,484)	(1,638)	(1,638)
Impairment of property and equipment and investment property (a)	569	581	598
Provisions (e)	(3,333)	-	-
Investment in associates (d)	277	277	110
Deferred taxes (g)	(1,531)	(1,951)	(1,431)
<b>Retained earnings as reported under IFRS</b>	<b>\$ 423,463</b>	<b>\$ 425,874</b>	<b>\$ 398,215</b>
Accumulated other comprehensive income as reported under Canadian GAAP	\$ -	\$ -	\$ -
IFRS adjustments:			
Defined benefit plans (f)	71	-	-
Investment in associates	565	565	565
<b>Accumulated other comprehensive income as reported under IFRS</b>	<b>\$ 636</b>	<b>\$ 565</b>	<b>\$ 565</b>
Non-controlling interest	\$ 1,034	\$ -	\$ -
<b>Members' equity as reported under IFRS</b>	<b>\$ 889,558</b>	<b>\$ 864,803</b>	<b>\$ 838,262</b>

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**Measurement adjustments**

**a) Property and equipment - Impairment of property and equipment and investment property**

IFRS requires an impairment to be recognized when the recoverable value of an asset is lower than its carrying amount and does not contain an initial review of whether undiscounted cash flows exceed an asset's carrying amount. There are also differences in the level at which assets are grouped into a cash generating unit under IFRS compared to an asset group under Canadian GAAP. IFRS also allows an impairment to be reversed if the circumstances that caused the impairment no longer exist, which was not allowed under previous Canadian GAAP.

As a result the Credit Union has reversed an impairment on a property that had been previously recognized under Canadian GAAP as the recoverable amount of the cash generating unit to which it belongs exceeds its carrying value. In addition, an impairment on an investment property has been recognized as a review of the fair value of the investment properties indicated that one property had a carrying value which exceeded its recoverable value. The impact of reassessment was an increase in property and equipment, a reduction in investment property and an offsetting increase in retained earnings. The impact of the impairment adjustments led to an increase in depreciation expense during 2011.

**b) Intangible assets - Website development costs**

In accordance with IFRS, costs associated with websites can only be capitalized where an entity can demonstrate how the website will generate future economic benefits. The impact of derecognition of website costs which no longer meet the criteria for capitalization was a reduction in intangible assets with a corresponding decrease in retained earnings. As a result of the write off of development costs General operating expenses increased during 2011.

**c) Derivative financial assets - Embedded derivatives**

In accordance with IAS 39, contracts that contain embedded derivatives must be assessed to determine whether the embedded derivative should be separately recognized as a derivative financial instrument. Similar requirements existed in Canadian GAAP. However, as allowed by Canadian GAAP, the Credit Union was permitted to limit its search for embedded derivatives to transactions occurring after November 1, 2002. As a result, on transition the Credit Union has recognized an increase in derivative financial assets with an offsetting increase in retained earnings. Changes in the fair value of the derivative were recognized in Other income during 2011.

**d) Investments in associates**

IFRS requires that IFRS transition adjustments of an associate need to be recognized in the financial statement of the investor. The Credit Union has restated its investments in associates to recognize its equity share of its associates IFRS transition adjustments. The impact is an increase in the investment, an increase in retained earnings and an increase in accumulated other comprehensive income. Net income from associates decreased during 2011.

**e) Provisions**

IFRS requires that a provision is recognized for any contract where the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received. This is referred to as an onerous contract. Canadian GAAP did not contain specific guidance relating to onerous contracts. As a result, the Credit Union has recognized a provision for an onerous contract and a reduction in retained earnings at October 31, 2011. The expense relating to the provision was recognized within General operating expenses.

**f) Defined benefit plans**

Under IFRS the Credit Union has the accounting policy choice to continue to use the corridor method for recognition of actuarial gains and losses on its defined benefit plans or to recognize them as they arise in other comprehensive income. The Credit Union has elected to change its policy on transition to immediate recognition in other comprehensive income. The Credit Union also elected under IFRS 1 to recognize all previously unrecognized actuarial gains and losses at the date of transition. As a result, the employee benefits provision increased with an offsetting reduction in retained earnings at November 1, 2010 and April 30, 2011 and with an

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increase to accumulated other comprehensive income at October 31, 2011. The impact of the change in policy was a reduction in personnel expenses and an increase in other comprehensive income in 2011.

**g) Deferred tax liabilities**

As a result of the transition to IFRS the carrying amounts of various assets and liabilities have been adjusted. There has not been a corresponding change to the tax basis of these assets and liabilities. As a result the deferred tax liability increased with a reduction in retained earnings and accumulated other comprehensive income. The deferred tax charge was reduced in net income during 2011, although tax recognized in other comprehensive income increased.

In addition to the adjustment to deferred taxes noted above, the Credit Union recognized a reduction in its deferred tax liability and an increase in retained earnings because IFRS contains a specific exemption from recognizing deferred taxes on transactions that are not business combinations and at the time of the transaction, neither accounting profit or taxable profit is affected. The deferred tax charge in the income statement increased as a result of the adjustment during 2011.

**h) Investment share redemption liabilities - Classification of member shares**

Under Canadian GAAP the Credit Union classified its members' shares, including investment shares as equity. Under IFRS, member shares that contain a right to redemption are treated as a compound financial instrument. The Credit Union's investment shares Series E contain partial redemption rights and a portion of the shares have been treated as a compound instrument. A share redemption liability was recognized as a result with a corresponding reduction in members' share capital. Dividends related to the liability portion of the investment shares have been recognized as an interest expense instead of a distribution from retained earnings.

**Presentation adjustments**

- 1) Under Canadian GAAP, foreclosed assets were separately presented in the consolidated statement of financial position. Under IFRS, foreclosed assets are presented with the assets held for sale on the consolidated statement of financial position.
- 2) IFRS requires that income tax balances are separately disclosed in the consolidated statement of financial position. As a result current tax receivables were reclassified from other assets to current tax receivables.
- 3) IFRS requires that the property held to earn rentals must be separately presented from property and equipment. A similar requirement did not exist under pre-changeover Canadian GAAP. As a result land and buildings have been reclassified from property and equipment to investment property.
- 4) IFRS requires that the deferred income tax assets and liabilities be separately disclosed in the consolidated statement of financial position. As a result deferred income tax assets and liabilities were reclassified from other assets and accounts payables and other liabilities to deferred income tax assets and deferred income tax liabilities.
- 5) IFRS requires that derivative financial assets and liabilities are separately disclosed in the consolidated statement of financial position. As a result derivative financial assets and liabilities were reclassified respectively from other assets and trade payables and other liabilities to derivative financial assets and derivative financial liabilities.
- 6) The Credit Union uses equity linked options to fix costs on term deposit products which are linked to movements in equity market indexes. Under Canadian GAAP the embedded derivative within members' deposits was presented within members' deposits accrued interest and the unamortized discount on the term deposit was presented within other assets. On transition the unamortized discount has been reclassified to members' deposits and the embedded derivative has been separately presented within derivative liabilities.

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7) IFRS requires that provisions be separately disclosed in the consolidated statement of financial position. The employee benefit provisions were previously included within accounts payable and other liabilities and are now separately presented.

8) IFRS requires that defined benefit plans are separately disclosed in the consolidated statement of financial position. The defined benefit plans were previously included within accounts payable and other liabilities and are now separately presented.

9) Equity income of \$4,627 for the six months ended April 30, 2011 has also been reclassified from other income to net income from associates.

10) Under Canadian GAAP, interest income is not recognized on an impaired loan. Under IFRS, interest income continues to be recognized at the interest rate used to discount the future cash flows for the purpose of measuring the impairment loss. As a result interest income and the provision for credit loss expense have both increased during the six months ended April 30, 2011 and for the year ended October 31, 2011.

**Changes to the Consolidated Statement of Cash Flows**

The transition from Canadian GAAP to IFRS has no significant impact on cash flows generated by the Credit Union except that under IFRS, cash flows relating to members' loans and members' deposits are classified as operating activities. Under Canadian GAAP cash flows relating to members' loans were classified as investing activities and cash flows relating to members' deposits were classified as financing activities.

Cash inflows and outflows from interest receipts and payments and cash outflows from tax payments are also now separately identified as part of cash flows from operating activities. Previously this information was shown as supplementary information.

**6. CASH AND CASH EQUIVALENTS**

	<b>As at April 30 2012</b>	<b>As at October 31 2011</b>	<b>As at November 1 2010</b>
Cash on hand	\$ 28,506	\$ 24,240	\$ 25,418
Cash in Alberta Central	123,495	94,862	119,733
Cheques in transit and other items	812	(435)	(920)
	<b>\$ 152,813</b>	<b>\$ 118,667</b>	<b>\$ 144,231</b>



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**7. MEMBERS' LOANS**

	<u>Gross Amount</u>	<u>Specific Allowance</u>	<u>Collective Allowance</u>	<u>Net Amount</u>	<u>Impaired Loans</u>
As at April 30, 2012					
Residential mortgages	\$ 5,859,302	\$ 226	\$ 354	\$ 5,858,722	\$ 1,135
Commercial mortgages and loans	2,968,356	24,173	3,647	2,940,536	35,036
Consumer loans	998,350	2,997	3,370	991,983	5,041
Agricultural mortgages and loans	290,066	86	17	289,963	157
	<u>10,116,074</u>	<u>27,482</u>	<u>7,388</u>	<u>10,081,204</u>	<u>41,369</u>
Accrued interest	35,135	2,053	455	32,627	-
	<u>\$ 10,151,209</u>	<u>\$ 29,535</u>	<u>\$ 7,843</u>	<u>\$ 10,113,831</u>	<u>\$ 41,369</u>

	<u>Gross Amount</u>	<u>Specific Allowance</u>	<u>Collective Allowance</u>	<u>Net Amount</u>	<u>Impaired Loans</u>
As at October 31, 2011					
Residential mortgages	\$ 5,705,616	\$ 884	\$ 535	\$ 5,704,197	\$ 4,064
Commercial mortgages and loans	2,960,388	21,055	2,165	2,937,168	55,064
Consumer loans	1,018,100	4,378	3,507	1,010,215	7,656
Agricultural mortgages and loans	272,771	38	114	272,619	1,826
	<u>9,956,875</u>	<u>26,355</u>	<u>6,321</u>	<u>9,924,199</u>	<u>68,610</u>
Accrued interest	32,818	-	-	32,818	-
	<u>\$ 9,989,693</u>	<u>\$ 26,355</u>	<u>\$ 6,321</u>	<u>\$ 9,957,017</u>	<u>\$ 68,610</u>

	<u>Gross Amount</u>	<u>Specific Allowance</u>	<u>Collective Allowance</u>	<u>Net Amount</u>	<u>Impaired Loans</u>
As at November 1, 2010					
Residential mortgages	\$ 5,333,289	\$ 570	\$ 754	\$ 5,331,965	\$ 3,302
Commercial mortgages and loans	2,792,662	7,083	4,616	2,780,963	23,298
Consumer loans	965,164	4,630	5,096	955,438	7,111
Agricultural mortgages and loans	263,651	23	413	263,215	1,103
	<u>9,354,766</u>	<u>12,306</u>	<u>10,879</u>	<u>9,331,581</u>	<u>34,814</u>
Accrued interest	33,143	-	-	33,143	-
	<u>\$ 9,387,909</u>	<u>\$ 12,306</u>	<u>\$ 10,879</u>	<u>\$ 9,364,724</u>	<u>\$ 34,814</u>

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**8. ALLOWANCE FOR CREDIT LOSSES**

	Residential Mortgages	Commercial Mortgages and Loans	Consumer Loans	Agricultural Mortgages and Loans	Total
Specific Allowance					
As at October 31, 2011	\$ 884	\$ 21,055	\$ 4,378	\$ 38	\$ 26,355
Recoveries of previous loan write offs	-	84	571	-	655
Provision for credit losses	(566)	4,465	510	48	4,457
	<u>318</u>	<u>25,604</u>	<u>5,459</u>	<u>86</u>	<u>31,467</u>
Loans written off	92	1,431	2,462	-	3,985
As at April 30, 2012	<u>\$ 226</u>	<u>\$ 24,173</u>	<u>\$ 2,997</u>	<u>\$ 86</u>	<u>\$ 27,482</u>
As at November 1, 2010	\$ 570	\$ 7,083	\$ 4,630	\$ 23	\$ 12,306
Recoveries of previous loan write offs	49	281	731	-	1,061
Provision for credit losses	1,727	15,121	4,111	15	20,974
	<u>2,346</u>	<u>22,485</u>	<u>9,472</u>	<u>38</u>	<u>34,341</u>
Loans written off	1,462	1,430	5,094	-	7,986
As at October 31, 2011	<u>\$ 884</u>	<u>\$ 21,055</u>	<u>\$ 4,378</u>	<u>\$ 38</u>	<u>\$ 26,355</u>
Collective Allowance					
As at October 31, 2011	\$ 535	\$ 2,165	\$ 3,507	\$ 114	\$ 6,321
Recoveries of previous loan write offs	-	-	-	-	-
Provision for credit losses	(181)	1,482	(137)	(97)	1,067
	<u>354</u>	<u>3,647</u>	<u>3,370</u>	<u>17</u>	<u>7,388</u>
Loans written off	-	-	-	-	-
As at April 30, 2012	<u>\$ 354</u>	<u>\$ 3,647</u>	<u>\$ 3,370</u>	<u>\$ 17</u>	<u>\$ 7,388</u>
As at November 1, 2010	\$ 754	\$ 4,616	\$ 5,096	\$ 413	\$ 10,879
Recoveries of previous loan write offs	-	-	-	-	-
Provision for credit losses	(219)	(2,451)	(1,589)	(299)	(4,558)
	<u>535</u>	<u>2,165</u>	<u>3,507</u>	<u>114</u>	<u>6,321</u>
Loans written off	-	-	-	-	-
As at October 31, 2011	<u>\$ 535</u>	<u>\$ 2,165</u>	<u>\$ 3,507</u>	<u>\$ 114</u>	<u>\$ 6,321</u>

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**9. CREDIT QUALITY OF MEMBERS' LOANS**

Loans Past Due but Not Impaired

Members' loans are considered past due when payments had not been received by contractual due date. The following table presents the carrying value of members' loans that are past due but not classified as impaired because they are either (1) less than 90 days past due unless there is information to the contrary that an impairment event has occurred or (ii) fully secured and collection efforts are reasonably expected to result in repayment.

Members' loans that are past but not impaired are as follows:

	Residential Mortgages	Commercial Mortgages and Loans	Consumer Loans	Agricultural Mortgages and Loans	Total
As at April 30, 2012					
Past due up to 29 days	\$ 72,311	\$ 17,073	\$ 16,580	\$ 5,120	\$ 111,084
Past due 30 to 59 days	20,917	34,902	3,372	1,596	60,787
Past due 60 to 89 days	14,241	5,450	1,038	189	20,918
Past due over 90 days	14,460	44,361	1,529	1,592	61,942
	<u>\$ 121,929</u>	<u>\$ 101,786</u>	<u>\$ 22,519</u>	<u>\$ 8,497</u>	<u>\$ 254,731</u>
As at October 31, 2011					
Past due up to 29 days	\$ 64,300	\$ 13,638	\$ 18,267	\$ 3,894	\$ 100,099
Past due 30 to 59 days	30,563	46,275	6,270	2,790	85,898
Past due 60 to 89 days	16,755	3,036	1,526	696	22,013
Past due over 90 days	15,282	36,232	22	723	52,259
	<u>\$ 126,900</u>	<u>\$ 99,181</u>	<u>\$ 26,085</u>	<u>\$ 8,103</u>	<u>\$ 260,269</u>
As at November 1, 2010					
Past due up to 29 days	\$ 59,004	\$ 27,604	\$ 16,268	\$ 4,528	\$ 107,404
Past due 30 to 59 days	31,735	54,430	5,873	1,580	93,618
Past due 60 to 89 days	19,836	4,392	1,969	926	27,123
Past due over 90 days	40,113	21,834	2,737	2,875	67,559
	<u>\$ 150,688</u>	<u>\$ 108,260</u>	<u>\$ 26,847</u>	<u>\$ 9,909</u>	<u>\$ 295,704</u>

The Credit Union has documented policies and procedures in place for the valuation of financial and non-financial collateral. For impaired loans, an assessment of the collateral is accepted into consideration when estimating the net realizable amount of the loans.

The amount and types of collateral required depend on the Credit Union's assessment of the members' credit quality and repayment capacity. Non-financial collateral taken by the Credit Union includes vehicles, residential real estate, real estate under development, business assets such as accounts receivable, inventory and fixed assets. The main types of financial collateral taken by the Credit Union include cash, negotiable securities and investments. Guarantees are also taken to reduce credit risk exposure risk.

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**9. CREDIT QUALITY OF MEMBERS' LOANS (CONTINUED)**

	<u>As at April 30 2012</u>	<u>As at October 31 2011</u>	<u>As at November 1 2010</u>
Loans by security			
Secured by mortgage	\$ 5,250,128	\$ 6,512,583	\$ 6,228,328
Secured by other	3,113,907	2,288,138	2,089,507
Unsecured	1,787,174	1,188,972	1,070,074
	<u>\$ 10,151,209</u>	<u>\$ 9,989,693</u>	<u>\$ 9,387,909</u>

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**10. DERIVATIVE FINANCIAL INSTRUMENTS**

	<b>As at April 30 2012</b>	<b>As at October 31 2011</b>	<b>As at November 1 2010</b>
<b>Derivative Financial Assets</b>			
Equity-linked options	\$ 7,410	\$ 6,979	\$ 8,963
Embedded purchase option	14,075	14,015	9,850
Interest rate swaps and cap options	-	-	202
	<b>\$ 21,485</b>	<b>\$ 20,994</b>	<b>\$ 19,015</b>
<b>Derivative Financial Liabilities</b>			
Embedded derivatives equity-linked option	\$ 7,761	\$ 6,551	\$ 8,657
Interest rate swaps and cap options	36	15	73
	<b>\$ 7,797</b>	<b>\$ 6,566</b>	<b>\$ 8,730</b>

The Credit Union enters into derivative transactions for risk management purposes.

**Interest Rate Swaps and Interest Rate Cap Options**

Interest rate swaps and interest rate cap options are used for asset liability management purposes against changes in interest rates. They involve the exchange of interest cash flows between two parties on a specified notional principal.

**Equity-Linked Options**

Equity-linked options are used to fix costs on term deposit products which are linked to movements in equity market indexes. The embedded derivative in the term deposit product as well as the option derivatives is marked to market through Interest income investments. The fair value of the equity linked derivative contract is separately presented as part of derivative instrument assets. The fair value of the embedded derivatives is recorded in Members' deposits on the statement of financial position.

**Embedded purchase option**

The Credit Union entered into an arrangement with a third party in which it acts as an agent to sell credit cards. The agreement is in force for three years and renews automatically unless either party provides notice to terminate. The agreement contains an option for the Credit Union to acquire the underlying consumer loans associated with the credit cards. The exercise price is linked to the book value of the loans and notice of intent to exercise the option must be provided one year prior to the termination of the agreement.

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**11. PROVISIONS**

	<b>As at April 30, 2012</b>		
	<b>Legal and contractual claims</b>	<b>Onerous contracts</b>	<b>Total</b>
Balance, beginning of period	\$ 2,200	\$ 3,333	\$ 5,533
Incurred during the period			
Settled in the period	(325)	(3,333)	(3,658)
Balance, end of period	<u>\$ 1,875</u>	<u>\$ -</u>	<u>\$ 1,875</u>

	<b>As at October 31, 2011</b>		
	<b>Legal and contractual claims</b>	<b>Onerous contracts</b>	<b>Total</b>
Balance, beginning of period	\$ 1,500	\$ -	\$ 1,500
Incurred during the period	700	3,333	4,033
Settled in the period	-	-	-
Balance, end of period	<u>\$ 2,200</u>	<u>\$ 3,333</u>	<u>\$ 5,533</u>

	<b>As at November 1, 2010</b>		
	<b>Legal and contractual claims</b>	<b>Onerous contracts</b>	<b>Total</b>
Balance, beginning of period	\$ 1,500	\$ -	\$ 1,500
Incurred during the period			
Settled in the period	-	-	-
Balance, end of period	<u>\$ 1,500</u>	<u>\$ -</u>	<u>\$ 1,500</u>

The Credit Union is subject to legal and contractual claims. The amount provided for as legal and contractual claims represents management's best estimate of the Credit Union's liability related to legal and contractual disputes for which it is probable that an amount will be paid. No amount is provided for disputes for which it is not probable that an amount will be paid. Uncertainty exists around whether a dispute will be settled by negotiation or if the Credit Union will be successful in defending the claim in court.

The onerous contracts of \$3,333 were included as other contractual obligations in note 20, Guarantees, Commitments and Contingents Liabilities of the 2011 annual consolidated financial statement under Canadian GAAP. Also, refer to note 5, First Time Adoption of IFRS e) Provisions.

During this interim period, the Credit Union entered into negotiations to amend the terms of the contracts. As a result of these negotiations, an agreement has been reached which releases the Credit Union from any current obligations under the original contracts and so the provision has been reversed.

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## **12. IMPAIRMENT OF INTANGIBLE ASSETS**

The Credit Union is in the process of developing a single banking system platform. Management has come to the conclusion that the development effort required and risks associated with the implementation of the new software product cannot be resolved on a cost effective and timely basis. In order to expedite the convergence of all operations to a single banking platform, the Board of Directors has approved an alternative software solution.

As a result, the Credit Union has determined that it is appropriate to record an impairment loss for the costs directly associated with the original software resulting in a write down of \$381 for the 6-month period ended April 30, 2012 (6-month period ended April 30, 2011 - \$nil). The impairment has been recorded in Operating expenses on the interim condensed consolidated statement of income and comprehensive income.

## **13. COMPARATIVE BALANCES**

The comparative amounts, for the 3-month and 6-month periods, reflect a retrospective correction to reclassify \$1,208 and \$2,374 of unrealized gain on the embedded purchase option previously included in Interest income investments to Other income on the interim condensed consolidated statement of income and comprehensive income. This correction did not have any effect on Net income or cash flows.