

SERVUS CREDIT UNION LTD.
Interim Condensed Consolidated Financial Statements
For the three months ended
January 31, 2013
(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
(Canadian \$ thousands)
(unaudited)

	Notes	January 31 2013	October 31 2012
Assets			
Cash and cash equivalents	4	\$ 61,774	\$ 176,832
Investments		932,826	913,323
Members' loans	5	10,899,698	10,677,621
Assets held for sale		11,881	14,586
Other assets		12,704	11,951
Property and equipment		180,623	181,898
Investment property		10,323	10,405
Derivative financial assets	8	23,190	22,307
Investments in associates		154,121	150,697
Intangible assets		29,895	25,577
Deferred income tax assets		60	60
Total assets		12,317,095	12,185,257
Liabilities			
Borrowings		175,200	-
Members' deposits		11,017,492	11,047,029
Trade payables and other liabilities		104,665	132,140
Income taxes payable		4,031	1,922
Provisions	9	416	2,250
Derivative financial liabilities	8	7,689	7,732
Investment shares		525	471
Defined benefit plans		7,593	7,570
Deferred income tax liabilities		9,524	9,524
Total liabilities		11,327,135	11,208,638
Equity			
Share capital		496,297	502,199
Retained earnings		492,391	473,163
Accumulated other comprehensive income		225	225
Total equity attributable to members of the Credit Union		988,913	975,587
Non-controlling interest		1,047	1,032
Total equity		989,960	976,619
Total liabilities and equity		\$ 12,317,095	\$ 12,185,257

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
(Canadian \$ thousands)
(unaudited)

Note	Three months ended January 31 2013	Three months ended January 31 2012
Interest Income		
Members' loans	\$ 115,441	\$ 112,555
Investments	2,537	2,489
Total interest income	117,978	115,044
Interest Expense		
Members' deposits	32,576	34,737
Other interest expense	838	266
Total interest expense	33,414	35,003
Net interest income	84,564	80,041
Other income	19,089	17,646
Share of profits from associates	3,423	2,116
Net interest income and other income	107,076	99,803
Provision for credit losses	6	4,177
Net interest income after provision for credit losses	102,899	98,572
Operating Expenses		
Personnel	42,213	38,917
General	14,437	15,370
Occupancy	5,365	4,678
Member security	4,443	4,408
Depreciation	3,733	3,701
Organization	1,190	1,115
Impairment of intangible assets	19	381
Amortization	433	227
Total operating expenses	71,833	68,797
Income before patronage allocation to members and income taxes	31,066	29,775
Patronage allocation to members	6,736	6,805
Income before income taxes	24,330	22,970
Income taxes	5,102	3,678
Net income and comprehensive income	19,228	19,292
Net income and comprehensive income attributable to:		
Members of the Credit Union	\$ 19,213	\$ 19,292
Non-controlling interest	15	-

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
(Canadian \$ thousands)
(unaudited)

	Three months ended January 31 2013	Three months ended January 31 2012
Share Capital		
Common Shares		
Balance, beginning of period	\$ 393,027	\$ 358,078
Issued and redeemed for cash, net	(3,876)	612
Balance, end of period	389,151	358,690
Investment Shares		
Balance, beginning of period	109,172	106,347
Issued and redeemed for cash, net	(2,026)	(1,242)
Balance, end of period	107,146	105,105
Share Capital, end of period	\$ 496,297	\$ 463,795
Retained Earnings		
Balance, beginning of period	\$ 473,163	\$ 425,512
Net income	19,228	19,292
Dividend	-	-
Retained Earnings, end of period	\$ 492,391	\$ 444,804
Accumulated Other Comprehensive Income (AOCI)		
Balance, beginning of period	\$ 225	\$ 636
Gains (Losses) on Defined Benefit Pension Plans	-	-
AOCI, end of period	\$ 225	\$ 636
Total Equity Attributable To Members of the Credit Union	\$ 988,913	\$ 909,235
Non-Controlling Interest		
Balance, beginning of period	1,032	1,034
Net income	15	-
Non-Controlling Interest, end of period	1,047	1,034
Total Equity	\$ 989,960	\$ 910,269

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

SERVUS CREDIT UNION LTD.
Interim Condensed Consolidated Statement of Cash Flow
(Canadian \$ thousands)
(unaudited)

	Three months ended January 31 2013	Three months ended January 31 2012
Cash Flows From (Used in) Operating Activities		
Net income	\$ 19,228	\$ 19,292
Adjustments for non-cash items and others		
Net interest income	(84,564)	(80,041)
Provision for credit losses	4,177	1,231
Net gain attributable to non-controlling interest	15	-
Net income from investments in associates	(3,423)	(2,116)
Depreciation and amortization	4,166	3,928
Impairment of intangible assets	19	381
(Gain)/loss on assets held for sale	(206)	765
Loss on sale of property and equipment	-	75
Income taxes	5,102	3,678
Adjustments for net changes in operating assets and liabilities		
Change in members' loans	(227,064)	(65,329)
Change in members' deposits	(22,897)	68,861
Change in assets held for sale	2,911	(218)
Change in derivatives	(926)	(711)
Net change in other assets and trade payables, provisions and other liabilities	(29,816)	(46,740)
Income taxes received and paid	(2,993)	6,666
Interest received	119,507	114,705
Interest paid	(39,854)	(38,601)
Net cash from (used in) operating activities	(256,618)	(14,174)
Cash Flows From (Used in) Investing Activities		
Additions to intangible assets	(4,770)	(4,825)
Additions to property and equipment and investment property	(2,477)	(2,784)
Dividend received	-	1,058
Investments	(20,222)	(62,573)
Net cash from (used in) investing activities	(27,469)	(69,124)
Cash Flows From (Used in) Financing Activities		
Advances of term loans payable and line of credit	175,000	60,004
Repayment of obligation under finance leases	(69)	(67)
Shares, issued and redeemed, net	(5,902)	(630)
Net cash from financing activities	169,029	59,307
Increase (decrease) in Cash	(115,058)	(23,991)
Cash and cash equivalents, beginning of period	176,832	118,667
Cash and cash equivalents, end of period	\$ 61,774	\$ 94,676

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
(Canadian \$ 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. 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 (The "Act") provides that the Province will ensure that the Corporation carries out this obligation.

2. BASIS OF PRESENTATION

These interim condensed consolidated financial statements are prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting as issued by the International Accounting Standards Board (IASB). The interim condensed consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Credit Union's 2012 audited annual consolidated financial statements. The accounting policies, methods of computation and presentation of these interim condensed consolidated financial statements are consistent with the most recent 2012 annual financial statements.

These interim condensed consolidated financial statements were approved by the Audit Committee on March 28, 2013.

Significant Accounting Estimates, Assumptions and Judgements

The preparation of the financial statements requires management to exercise estimates, assumptions and judgements that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. These significant estimates, assumptions and judgements have been disclosed in note 2 to Servus' 2012 annual consolidated financial statements. The estimates, assumptions and judgements used in preparation of these interim condensed consolidated financial statements are consistent with the most recent 2012 annual financial statements.

3. FUTURE ACCOUNTING CHANGES

Future accounting changes have been disclosed in note 4 of Servus' 2012 annual consolidated financial statements.

4. CASH AND CASH EQUIVALENTS

	As at January 31 2013	As at October 31 2012
Cash on hand	\$ 17,529	\$ 17,194
ATM deposits	5,550	1,458
ATM cash on hand	6,894	7,172
ATM recycler cash on hand	1,662	1,579
Foreign exchange cash	49	39
Cash with Alberta Central	26,082	149,846
Cheques and items in transit	4,008	(456)
Total	\$ 61,774	\$ 176,832

SERVUS CREDIT UNION LTD.
Notes to Interim Condensed Consolidated Financial Statements
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5. MEMBERS' LOANS

	Gross Amount	Specific allowance	Collective allowance	Net Amount	Impaired Loans
As at January 31, 2013					
Residential mortgages	\$ 6,179,724	\$ 83	\$ 506	\$ 6,179,135	\$ 727
Commercial mortgages and loans	3,339,332	26,065	2,749	3,310,518	36,809
Consumer loans	1,068,043	3,268	3,489	1,061,286	5,004
Agricultural mortgages and loans	312,248	33	13	312,202	33
	10,899,347	29,449	6,757	10,863,141	42,573
Accrued interest	38,382	1,260	565	36,557	-
Total	\$ 10,937,729	\$ 30,709	\$ 7,322	\$ 10,899,698	\$ 42,573

	Gross Amount	Specific allowance	Collective allowance	Net Amount	Impaired Loans
As at October 31, 2012					
Residential mortgages	\$ 6,121,552	\$ 155	\$ 547	\$ 6,120,850	\$ 825
Commercial mortgages and loans	3,182,053	26,716	1,818	3,153,519	36,742
Consumer loans	1,060,593	3,143	2,973	1,054,477	4,831
Agricultural mortgages and loans	311,421	10	2	311,409	596
	10,675,619	30,024	5,340	10,640,255	42,994
Accrued interest	38,987	1,182	439	37,366	-
Total	\$ 10,714,606	\$ 31,206	\$ 5,779	\$ 10,677,621	\$ 42,994

SERVUS CREDIT UNION LTD.
Notes to Interim Condensed Consolidated Financial Statements
(Canadian \$ thousands)
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6. ALLOWANCE FOR CREDIT LOSSES

Specific Allowance

	Residential	Commercial	Consumer	Agricultural	Interest	Total
As at October 31, 2012	\$ 155	\$ 26,716	\$ 3,143	\$ 10	\$ 1,182	\$ 31,206
Recoveries of previous loan write offs	1	7	266	-	-	274
Allowance charged to net income	649	327	1,047	27	584	2,634
	805	27,050	4,456	37	1,766	34,114
Loans written off	722	985	1,188	4	506	3,405
As at January 31, 2013	\$ 83	\$ 26,065	\$ 3,268	\$ 33	\$ 1,260	\$ 30,709

	Residential	Commercial	Consumer	Agricultural	Interest	Total
As at October 31, 2011	\$ 884	\$ 21,055	\$ 4,378	\$ 38	\$ 3,471	\$ 29,826
Recoveries of previous loan write offs	-	48	1,280	-	-	1,328
Allowance charged to net income	(79)	8,732	2,606	(13)	(2,289)	8,957
	805	29,835	8,264	25	1,182	40,111
Loans written off	650	3,119	5,121	15	-	8,905
As at October 31, 2012	\$ 155	\$ 26,716	\$ 3,143	\$ 10	\$ 1,182	\$ 31,206

Collective Allowance

	Residential	Commercial	Consumer	Agricultural	Interest	Total
As at October 31, 2012	\$ 547	\$ 1,818	\$ 2,973	\$ 2	\$ 439	\$ 5,779
Allowance charged to net income	(42)	931	517	11	126	1,543
As at January 31, 2013	\$ 505	\$ 2,749	\$ 3,490	\$ 13	\$ 565	\$ 7,322

	Residential	Commercial	Consumer	Agricultural	Interest	Total
As at October 31, 2011	\$ 535	\$ 2,165	\$ 3,507	\$ 114	\$ -	\$ 6,321
Allowance charged to net income	12	(347)	(534)	(112)	439	(542)
As at October 31, 2012	\$ 547	\$ 1,818	\$ 2,973	\$ 2	\$ 439	\$ 5,779

SERVUS CREDIT UNION LTD.
Notes to Interim Condensed Consolidated Financial Statements
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7. CREDIT QUALITY OF MEMBERS' LOANS

The following analysis includes individual loans that are impaired, or potentially impaired, based on age of repayments outstanding, in determining the specific allowance. Risk categories are defined by the Corporation and allow management to monitor credit risk.

<i>As at January 31, 2013</i>	Residential	Commercial	Consumer	Agricultural	Total
Risk Categories					
1 to 5 - Satisfactory risk	\$ -	\$3,254,467	\$ -	\$ 310,207	\$ 3,564,674
6 - Watch list ⁽¹⁾	-	18,332	-	764	19,096
8 - Impaired Risk - Performing ⁽²⁾	-	1,040	-	-	1,040
7 and 9 - Unacceptable/Impaired Risk - Non-performing ⁽³⁾	-	28,684	-	1,244	29,928
Commercial Mortgages and loans not impaired	-	3,302,523	-	312,215	3,614,738
Residential mortgages and personal loans not impaired	6,178,997	-	1,063,039	-	7,242,036
Loans not impaired	6,178,997	3,302,523	1,063,039	312,215	10,856,774
Accrued interest	11,824	13,832	9,911	2,815	38,382
Loans specifically impaired	727	36,809	5,004	33	42,573
Total	\$6,191,548	\$3,353,164	\$1,077,954	\$ 315,063	\$ 10,937,729

<i>As at October 31, 2012</i>	Residential	Commercial	Consumer	Agricultural	Total
Risk Categories					
1 to 5 - Satisfactory risk	\$ -	\$ 3,101,615	\$ -	\$ 309,860	\$ 3,411,475
6 - Watch list	-	17,288	-	470	17,758
8 - Impaired Risk - Performing	-	1,191	-	-	1,191
7 and 9 - Unacceptable/Impaired Risk - Non-performing	-	25,217	-	495	25,712
Commercial Mortgages and loans not impaired	-	3,145,311	-	310,825	3,456,136
Residential mortgages and personal loans not impaired	6,120,727	-	1,055,762	-	7,176,489
Loans not impaired	6,120,727	3,145,311	1,055,762	310,825	10,632,625
Accrued interest	11,759	13,719	9,554	3,955	38,987
Loans specifically impaired	825	36,742	4,831	596	42,994
Total	\$ 6,133,311	\$ 3,195,772	\$ 1,070,147	\$ 315,376	\$ 10,714,606

- 1) **Risk Rating 6:** This category includes accounts where there is not a risk for principal or interest at present but performance trend is negative and unless reversed could lead to losses for Servus Credit Union. This is a transitional rating as the expectation is to be able to upgrade the account within the next 12 month period. Servus Credit Union would not be averse to losing the relationship and justification for account retention must be provided. If retention cannot be rationalized, then an action plan is to be developed to exit the relationship.
- 2) **Risk Rating 8:** The deterioration in value of the security could make a loss in principal likely. However, the loan is still performing with payments being applied against principal and interest within the contractual terms.
- 3) **Risk Rating 7:** These members exhibit the characteristics in the Risk "6" category but one or more of the following apply:
 - a. Interest is 60 or more days in arrears. (30 days for term loans subject to annual payments)
 - b. Collection of interest is in doubt but there is no exposure for principal.**Risk Rating 9:** Same criteria that is established for Risk "7" but there is deterioration in value of the security that could make a loss in principal likely.

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Notes to Interim Condensed Consolidated Financial Statements
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7. CREDIT QUALITY OF MEMBERS' LOANS (CONTINUED)

Loans past due as at January 31, 2013

	Residential	Commercial	Consumer	Agricultural	Total
Past due up to 29 days	\$ 77,494	\$ 21,253	\$ 18,405	\$ 10,961	\$ 128,113
Past due 30 - 59 days	25,602	55,439	4,379	4,216	89,636
Past due 60 - 89 days	9,354	19,856	1,956	1,874	33,040
Past due over 90 days	14,387	56,843	4,637	411	76,278
Total	\$ 126,837	\$ 153,391	\$ 29,377	\$ 17,462	\$ 327,067

Loans past due, as at October 31, 2012

Past due up to 29 days	\$ 87,738	\$ 14,103	\$ 15,798	\$ 5,807	\$ 123,446
Past due 30 - 59 days	31,268	29,102	4,411	2,321	67,102
Past due 60 - 89 days	11,039	5,319	1,681	384	18,423
Past due over 90 days	14,152	64,107	4,864	1,349	84,472
Total	\$ 144,197	\$ 112,631	\$ 26,754	\$ 9,861	\$ 293,443

Loans Past Due but Not Impaired

Members' loans are considered past due when payments have not been received by the 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 (i) less than 90 days past due and there is no information that an impairment event has occurred or (ii) fully secured and collection efforts are reasonably expected to result in full repayment.

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

Loans past due but not impaired as at January 31, 2013

	Residential	Commercial	Consumer	Agricultural	Total
Past due up to 29 days	\$ 77,494	\$ 21,253	\$ 18,405	\$ 10,961	\$ 128,113
Past due 30 - 59 days	25,602	55,411	4,379	4,216	89,608
Past due 60 - 89 days	9,354	19,207	1,378	1,858	31,797
Past due over 90 days	13,660	20,711	211	394	34,976
Total	\$ 126,110	\$ 116,582	\$ 24,373	\$ 17,429	\$ 284,494

Loans past due but not impaired as at October 31, 2012

	Residential	Commercial	Consumer	Agricultural	Total
Past due up to 29 days	\$ 87,738	\$ 4,185	\$ 15,798	\$ 5,807	\$ 113,528
Past due 30 - 59 days	31,268	28,915	4,411	2,321	66,915
Past due 60 - 89 days	11,039	5,319	1,623	384	18,365
Past due over 90 days	13,326	37,471	91	753	51,641
Total	\$ 143,371	\$ 75,890	\$ 21,923	\$ 9,265	\$ 250,449

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 taken 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 trade receivables, inventory and property and equipment. 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.

SERVUS CREDIT UNION LTD.
Notes to Interim Condensed Consolidated Financial Statements
(Canadian \$ thousands)
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7. CREDIT QUALITY OF MEMBERS' LOANS (CONTINUED)

	As at January 31 2013	As at October 31 2012
Loans by security:		
Secured by mortgage	\$ 8,077,159	\$ 7,677,744
Secured by other	2,208,877	2,112,913
Unsecured	651,693	923,949
Total	\$ 10,937,729	\$ 10,714,606

8. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

	As at January 31 2013	As at October 31 2012
Derivative Financial Assets		
Interest rate swaps and cap options	\$ 64	\$ -
Equity-linked options	7,730	7,359
Embedded purchase option	15,396	14,948
Total	\$ 23,190	\$ 22,307
Derivative Financial Liabilities		
Embedded derivatives	\$ 7,689	\$ 7,732
Interest rate swaps and cap options	-	-
Total	\$ 7,689	\$ 7,732

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 pay a return to the deposit holder based on the change 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.

Embedded purchase option

The Credit Union entered into an arrangement with a third party in which it acts as an agent to offer credit cards to its members. The agreement lasts 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. The current agreement was extended in October 2012 and again in December 2012, and is due to renew in September 2015.

SERVUS CREDIT UNION LTD.
Notes to Interim Condensed Consolidated Financial Statements
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9. PROVISIONS

	Legal and contractual claims	Onerous Contracts	Total
Balance, October 31, 2012	\$ 2,250	\$ -	\$ 2,250
Incurred	11	-	11
Settled	(1,845)	-	(1,845)
Reversed	-	-	-
Balance, January 31, 2013	\$ 416	\$ -	\$ 416

	Legal and contractual claims	Onerous Contracts	Total
Balance, October 31, 2011	\$ 2,200	\$ 3,333	\$ 5,533
Incurred	300	-	300
Settled	-	-	-
Reversed	(250)	(3,333)	(3,583)
Balance, October 31, 2012	\$ 2,250	\$ -	\$ 2,250

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.

At October 31, 2011, the Credit Union had contracts which required payments through 2015. The Credit Union determined that the obligations under the contract exceeded the benefit expected to be received and recognized the present value of future payments as an onerous contract. During 2012, 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.

10. COMPARATIVE FIGURES

The comparative figures for the interim condensed consolidated statement of financial position conform with the audited consolidated statement of financial position as at October 31, 2012.

Certain comparative figures for the interim condensed consolidated statement of income and comprehensive income, changes in members' equity and of cash flow have been reclassified to conform with the current period presentation and with the presentation included in the audited consolidated financial statements for the year ended October 31, 2012.

The resulting reclassifications, primarily to interest income, provision for credit losses and retained earnings beginning of period (November 1, 2011), were due to the finalization of the presentation adjustments related to the adoption of International Financial Reporting Standards in 2012. The reclassifications did not result in a change to the comparative net income and comprehensive income.

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Notes to Interim Condensed Consolidated Financial Statements
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11. SUBSEQUENT EVENTS

On March 1, 2013, the Credit Union sold cash flows associated with residential mortgages to Central 1 on a mortgage securitization transaction backed by a pool of residential mortgages totaling \$24,177.

On March 15, 2013, the Credit Union received from Credit Union Central of Alberta a Patronage distribution of \$14,844 and a dividend of \$2,225. The distribution and dividend will be recorded as a reduction in Investment in Associates.