

SERVUS CREDIT UNION LTD.
Interim Condensed Consolidated Financial Statements
For the six months ended
April 30, 2014
(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 Chartered Professional Accountants of Canada 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	April 30 2014	October 31 2013
Assets			
Cash and cash equivalents	4	\$ 114,918	\$ 142,310
Investments		962,444	803,972
Members' loans	5,7	11,985,412	11,743,165
Assets held for sale		7,878	9,752
Other assets		18,289	12,406
Property and equipment		174,306	178,808
Investment property		6,886	7,404
Derivative financial assets	8	23,116	24,976
Investments in associates		159,987	152,679
Intangible assets		45,787	40,959
Deferred income tax assets		19	19
Total assets		13,499,042	13,116,450
Liabilities			
Secured borrowing		15,865	17,630
Members' deposits		12,217,995	11,870,882
Trade payables and other liabilities		147,228	136,839
Income taxes payable		826	3,470
Provisions		508	454
Derivative financial liabilities	8	5,583	7,547
Investment shares		490	449
Defined benefit plans		7,293	7,283
Deferred income tax liabilities		11,568	11,359
Total liabilities		12,407,356	12,055,913
Equity			
Share capital		526,142	529,009
Retained earnings		564,082	530,067
Accumulated other comprehensive income		447	447
Total equity attributable to members of the Credit Union		1,090,671	1,059,523
Non-controlling interest		1,015	1,014
Total equity		1,091,686	1,060,537
Total liabilities and equity		\$ 13,499,042	\$ 13,116,450

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 April 30 2014	Three months ended April 30 2013	Six months ended April 30 2014	Six months ended April 30 2013
Interest income				
Members' loans	\$ 119,138	\$ 111,858	\$ 239,831	\$ 227,299
Investments	2,237	2,024	4,426	4,561
Total interest income	121,375	113,882	244,257	231,860
Interest expense				
Members' deposits	37,334	33,810	73,751	66,386
Other interest expense	642	405	1,375	1,243
Total interest expense	37,976	34,215	75,126	67,629
Net interest income				
Other income	83,399	79,667	169,131	164,231
Share of profits from associates	18,163	19,107	38,531	38,196
	3,738	6,661	6,413	10,084
Net interest income and other income	105,300	105,435	214,075	212,511
Provision for credit losses	6	2,664	(1,292)	4,939
Net interest income after provision for credit losses	102,636	106,727	209,136	209,627
Operating expenses				
Personnel	47,527	43,208	91,541	85,421
General	13,619	15,794	28,320	30,231
Occupancy	5,313	4,942	10,563	10,307
Member security	4,826	4,463	9,626	8,906
Depreciation	3,608	3,647	7,198	7,380
Organization	1,121	1,015	2,361	2,205
Amortization	1,038	333	1,428	785
Total operating expenses	77,052	73,402	151,037	145,235
Income before patronage allocation to members and income taxes				
	25,584	33,325	58,099	64,392
Patronage allocation to members	7,127	6,551	14,173	13,287
Income before income taxes	18,457	26,774	43,926	51,105
Income taxes	4,190	5,867	9,911	10,969
Net income and comprehensive income	\$ 14,267	\$ 20,907	\$ 34,015	\$ 40,136
Net income and comprehensive income attributable to:				
Members of the Credit Union	\$ 14,267	\$ 20,896	\$ 34,014	\$ 40,110
Non-controlling interest	-	11	1	26

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SERVUS CREDIT UNION LTD.
Interim Condensed Consolidated Statement of Changes in Equity
(Canadian \$ thousands)
(unaudited)

	Six months ended April 30 2014	Six months ended April 30 2013
Share capital		
Common shares		
Balance, beginning of period	\$ 418,161	\$ 393,027
Issued	12,537	17,343
Redeemed	(13,308)	(12,633)
Balance, end of period	417,390	397,737
Investment shares		
Balance, beginning of period	110,848	109,172
Redeemed	(2,096)	(2,445)
Balance, end of period	108,752	106,727
Share capital, end of period	\$ 526,142	\$ 504,464
Retained earnings		
Balance, beginning of period	\$ 530,067	\$ 473,163
Net income	34,015	40,136
Retained earnings, end of period	\$ 564,082	\$ 513,299
Accumulated other comprehensive income (AOCI)		
Balance, beginning of period	\$ 447	\$ 225
AOCI, end of period	\$ 447	\$ 225
Total equity attributable to members of the Credit Union	\$ 1,090,671	\$ 1,017,988
Non-controlling interest		
Balance, beginning of period	1,014	1,032
Net income	1	26
Non-controlling interest, end of period	1,015	1,058
Total equity	\$ 1,091,686	\$ 1,019,046

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
(Canadian \$ thousands)
(unaudited)

	Six months ended April 30 2014	Six months ended April 30 2013
Cash Flows (Used in) From Operating Activities		
Net income	\$ 34,015	\$ 40,136
Adjustments for non-cash items and others		
Net interest income	(169,131)	(164,231)
Provision for credit losses	4,939	2,884
Net income attributable to non-controlling interest	1	26
Net income from investments in associates	(6,413)	(10,084)
Depreciation and amortization	8,626	8,165
(Gain)/loss on assets held for sale	(455)	13
(Gain)/loss on sale of property and equipment	(15)	756
Income taxes	9,911	10,969
Adjustments for net changes in operating assets and liabilities		
Change in members' loans	(246,659)	(415,685)
Change in members' deposits	355,525	110,353
Change in assets held for sale	1,523	3,746
Change in derivatives	(104)	(827)
Net change in other assets, provisions, and trade payables and other liabilities	4,708	(10,096)
Income taxes received and paid, net	(12,346)	(9,503)
Interest received	242,785	234,217
Interest paid	(83,538)	(74,788)
Net cash from (used in) operating activities	143,372	(273,949)
Cash Flows From (Used in) Investing Activities		
Additions to intangible assets	(6,256)	(9,055)
Additions to property and equipment and investment property	(2,282)	(5,670)
Proceeds on disposal of property and equipment, and investment property	22	2,021
Proceeds on disposal of assets held for sale	806	384
Purchase of Alberta Central shares	(9,305)	(9,500)
Distributions from Alberta Central	8,410	17,068
Investments	(157,527)	161,462
Net cash (used in) from investing activities	(166,132)	156,710
Cash Flows From Financing Activities		
Advances of term loans payable and line of credit	-	24,177
Repayment of secured borrowing	(1,765)	(601)
Repayment of obligation under finance leases	-	(115)
Shares issued	12,537	17,343
Shares redeemed	(15,404)	(15,078)
Net cash (used in) from financing activities	(4,632)	25,726
(Decrease) in Cash and cash equivalents	(27,392)	(91,513)
Cash and cash equivalents, beginning of period	142,310	176,832
Cash and cash equivalents, end of period	\$ 114,918	\$ 85,319

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)
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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 of Alberta 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 2013 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 2013 annual financial statements except as described in Note 3.

These interim condensed consolidated financial statements were approved by the Audit and Finance Committee on June 25, 2014.

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' 2013 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 2013 annual financial statements.

3. CHANGES IN ACCOUNTING POLICIES

These interim condensed consolidated financial statements have been prepared following the same accounting policies and methods as those used in preparing Servus' 2013 annual consolidated financial statements, with the exception of accounting policies adopted as a result of the following new and amended accounting standards relevant to Servus effective November 1, 2013.

IFRS 7 – Financial Instruments – Disclosures – Offsetting Financial Assets and Liabilities (Amendment)
IFRS 10 – Consolidated Financial Statements
IFRS 11 – Joint Arrangements
IFRS 12 – Disclosure of Interest in Other Entities
IFRS 13 – Fair Value Measurement
IAS 19 – Employee Benefits (Amendments)

The adoption of the new and amended accounting standards which became effective November 1, 2013 did not have a material impact on these interim condensed financial statements.

SERVUS CREDIT UNION LTD.
Notes to Interim Condensed Consolidated Financial Statements
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4. CASH AND CASH EQUIVALENTS

	As at April 30 2014	As at October 31 2013
Cash on hand	\$ 16,209	\$ 16,996
ATM	16,390	11,431
Foreign exchange cash	160	105
Cash with Alberta Central	80,448	117,891
Cheques and items in transit	1,711	(4,113)
Total	\$ 114,918	\$ 142,310

5. MEMBERS' LOANS

	Gross Amount	Specific allowance	Collective allowance	Net Amount	Impaired Loans
As at April 30, 2014					
Residential mortgages	\$ 6,808,447	\$ 859	\$ 1,137	\$ 6,806,451	\$ 2,773
Commercial mortgages and loans	3,685,696	27,133	1,859	3,656,704	38,846
Consumer loans	1,171,293	2,616	3,325	1,165,352	4,075
Agricultural mortgages and loans	317,530	45	26	317,459	712
	11,982,966	30,653	6,347	11,945,966	46,406
Accrued interest	41,672	1,800	426	39,446	-
Total	\$ 12,024,638	\$ 32,453	\$ 6,773	\$ 11,985,412	\$ 46,406

	Gross Amount	Specific allowance	Collective allowance	Net Amount	Impaired Loans
As at October 31, 2013					
Residential mortgages	\$ 6,607,195	\$ 655	\$ 1,217	\$ 6,605,323	\$ 2,453
Commercial mortgages and loans	3,656,541	25,145	2,509	3,628,887	34,321
Consumer loans	1,145,942	3,395	2,816	1,139,731	5,032
Agricultural mortgages and loans	330,372	46	21	330,305	47
	11,740,050	29,241	6,563	11,704,246	41,853
Accrued interest	40,841	1,420	502	38,919	-
Total	\$ 11,780,891	\$ 30,661	\$ 7,065	\$ 11,743,165	\$ 41,853

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Notes to Interim Condensed Consolidated Financial Statements
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6. ALLOWANCE FOR CREDIT LOSSES

Specific Allowance

	Residential	Commercial	Consumer	Agricultural	Interest	Total
As at October 31, 2013	\$ 655	\$ 25,145	\$ 3,395	\$ 46	\$ 1,420	\$ 30,661
Recoveries of previous loan write offs	5	32	678	-	-	715
Allowance charged to net income	527	2,994	1,132	(1)	579	5,231
	1,187	28,171	5,205	45	1,999	36,607
Loans written off	328	1,038	2,589	-	199	4,154
As at April 30, 2014	\$ 859	\$ 27,133	\$ 2,616	\$ 45	\$ 1,800	\$ 32,453

	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	2	63	1,293	15	-	1,373
Allowance charged to net income	2,143	1,772	4,350	33	1,138	9,436
	2,300	28,551	8,786	58	2,320	42,015
Loans written off	1,645	3,406	5,391	12	900	11,354
As at October 31, 2013	\$ 655	\$ 25,145	\$ 3,395	\$ 46	\$ 1,420	\$ 30,661

Collective Allowance

	Residential	Commercial	Consumer	Agricultural	Interest	Total
As at October 31, 2013	\$ 1,217	\$ 2,509	\$ 2,816	\$ 21	\$ 502	\$ 7,065
Allowance charged to net income	(80)	(650)	509	5	(76)	(292)
As at April 30, 2014	\$ 1,137	\$ 1,859	\$ 3,325	\$ 26	\$ 426	\$ 6,773

	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	670	691	(157)	19	63	1,286
As at October 31, 2013	\$ 1,217	\$ 2,509	\$ 2,816	\$ 21	\$ 502	\$ 7,065

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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 April 30, 2014</i>	Residential	Commercial	Consumer	Agricultural	Total
Risk Categories					
1 to 5 - Satisfactory risk	\$ -	\$ 3,612,600	\$ -	\$ 314,937	\$ 3,927,537
6 - Watch list	-	22,422	-	1,717	24,139
8 - Impaired risk - performing	-	30	-	-	30
7 and 9 - Delinquent but secured	-	11,798	-	165	11,963
Commercial & agricultural mortgages and loans not impaired	-	3,646,850	-	316,819	3,963,669
Residential mortgages and personal loans not impaired	6,805,674	-	1,167,217	-	7,972,891
Loans not impaired	6,805,674	3,646,850	1,167,217	316,819	11,936,560
Loans specifically impaired	2,773	38,846	4,075	712	46,406
Sub Total	6,808,447	3,685,696	1,171,292	317,531	11,982,966
Accrued interest	12,085	14,276	12,211	3,100	41,672
Total	\$ 6,820,532	\$ 3,699,972	\$ 1,183,503	\$ 320,631	\$ 12,024,638

<i>As at October 31, 2013</i>	Residential	Commercial	Consumer	Agricultural	Total
Risk Categories					
1 to 5 - Satisfactory risk	\$ -	\$ 3,587,025	\$ -	\$ 326,956	\$ 3,913,981
6 - Watch list	-	13,884	-	1,869	15,753
8 - Impaired Risk - Performing	-	36	-	-	36
7 and 9 - Unacceptable/impaired risk - non-performing	-	21,275	-	1,500	22,775
Commercial & agricultural mortgages and loans not impaired	-	3,622,220	-	330,325	3,952,545
Residential mortgages and personal loans not impaired	6,604,742	-	1,140,910	-	7,745,652
Loans not impaired	6,604,742	3,622,220	1,140,910	330,325	11,698,197
Loans specifically impaired	2,453	34,321	5,032	47	41,853
Sub Total	6,607,195	3,656,541	1,145,942	330,372	11,740,050
Accrued interest	12,187	12,669	11,955	4,030	40,841
Total	\$ 6,619,382	\$ 3,669,210	\$ 1,157,897	\$ 334,402	\$ 11,780,891

- **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. This is a transitional rating as the expectation is to be able to upgrade the account within the next 12 month period.
- **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.
- **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.

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

Loans past due as at April 30, 2014

	Residential	Commercial	Consumer	Agricultural	Total
Past due up to 29 days	\$ 84,746	\$ 13,108	\$ 13,424	\$ 6,656	\$ 117,934
Past due 30 - 59 days	22,406	14,814	4,802	3,635	45,657
Past due 60 - 89 days	7,244	6,873	1,495	420	16,032
Past due over 90 days	10,154	57,886	4,687	1,125	73,852
Total	\$ 124,550	\$ 92,681	\$ 24,408	\$ 11,836	\$ 253,475

Loans past due as at October 31, 2013

Past due up to 29 days	\$ 87,332	\$ 17,529	\$ 11,982	\$ 1,945	\$ 118,788
Past due 30 - 59 days	27,860	16,107	5,432	1,623	51,022
Past due 60 - 89 days	8,498	1,533	1,462	295	11,788
Past due over 90 days	15,671	57,749	4,262	2,722	80,404
Total	\$ 139,361	\$ 92,918	\$ 23,138	\$ 6,585	\$ 262,002

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 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 full repayment.

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

Loans past due but not impaired as at April 30, 2014

	Residential	Commercial	Consumer	Agricultural	Total
Past due up to 29 days	\$ 84,500	\$ 13,108	\$ 13,102	\$ 6,656	\$ 117,366
Past due 30 - 59 days	22,406	14,814	4,666	3,635	45,521
Past due 60 - 89 days	7,244	6,464	1,386	420	15,514
Past due over 90 days	7,627	19,449	1,179	413	28,668
Total	\$ 121,777	\$ 53,835	\$ 20,333	\$ 11,124	\$ 207,069

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

	Residential	Commercial	Consumer	Agricultural	Total
Past due up to 29 days	\$ 87,332	\$ 17,529	\$ 11,589	\$ 1,945	\$ 118,395
Past due 30 - 59 days	27,788	16,107	5,294	1,623	50,812
Past due 60 - 89 days	8,498	829	878	295	10,500
Past due over 90 days	13,290	24,132	345	2,675	40,442
Total	\$ 136,908	\$ 58,597	\$ 18,106	\$ 6,538	\$ 220,149

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 mortgage, cash, negotiable securities and investments. Guarantees are also taken to reduce credit risk exposure risk.

	As at April 30 2014	As at October 31 2013
Loans by security:		
Secured by mortgage	\$ 8,738,974	\$ 8,515,834
Secured by other	2,604,632	2,566,171
Unsecured	681,032	698,886
Total	\$12,024,638	\$ 11,780,891

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8. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

	As at April 30 2014	As at October 31 2013
Derivative Financial Assets		
Equity-linked options	\$ 5,656	\$ 7,585
Embedded purchase option	17,460	17,391
Total	\$ 23,116	\$ 24,976
Derivative Financial Liabilities		
Embedded derivatives	\$ 5,583	\$ 7,546
Interest rate swaps and cap options	-	1
Total	\$ 5,583	\$ 7,547

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, where the third party 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 is due to renew in September 2015.

Embedded Derivatives

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risk are not closely related to those of the host contract and the combined contract is not carried at fair value. Identified embedded derivatives are separated from the host contract and are recorded at fair value.

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.