

SERVUS CREDIT UNION LTD.
Interim Condensed Consolidated Financial Statements
For the three months ended
January 31, 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	January 31 2014	October 31 2013
Assets			
Cash and cash equivalents	4	\$ 95,332	\$ 142,310
Investments		982,433	803,972
Members' loans	5,7	11,895,313	11,743,165
Assets held for sale		8,140	9,752
Other assets		12,802	12,406
Property and equipment		177,056	178,808
Investment property		6,967	7,404
Derivative financial assets	8	26,109	24,976
Investments in associates		155,354	152,679
Intangible assets		43,945	40,959
Deferred income tax assets		19	19
Total assets		13,403,470	13,116,450
Liabilities			
Secured borrowing		16,914	17,630
Members' deposits		12,183,990	11,870,882
Trade payables and other liabilities		99,892	136,839
Income taxes payable		2,535	3,470
Provisions		505	454
Derivative financial liabilities	8	8,034	7,547
Investment shares		490	449
Defined benefit plans		7,288	7,283
Deferred income tax liabilities		11,359	11,359
Total liabilities		12,331,007	12,055,913
Equity			
Share capital		521,187	529,009
Retained earnings		549,814	530,067
Accumulated other comprehensive income		447	447
Total equity attributable to members of the Credit Union		1,071,448	1,059,523
Non-controlling interest		1,015	1,014
Total equity		1,072,463	1,060,537
Total liabilities and equity		\$ 13,403,470	\$ 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 January 31 2014	Three months ended January 31 2013
Interest income			
Members' loans		\$ 120,692	\$ 115,441
Investments		2,189	2,537
Total interest income		122,881	117,978
Interest expense			
Members' deposits		36,417	32,576
Other interest expense		733	838
Total interest expense		37,150	33,414
Net interest income			
Other income		85,731	84,564
Share of profits from associates		20,368	19,089
Net interest income and other income		108,774	107,076
Provision for credit losses	6	2,275	4,177
Net interest income after provision for credit losses		106,499	102,899
Operating expenses			
Personnel		44,014	42,213
General		14,701	14,437
Occupancy		5,250	5,365
Member security		4,800	4,443
Depreciation		3,591	3,733
Organization		1,240	1,190
Impairment of intangible assets		-	19
Amortization		390	433
Total operating expenses		73,986	71,833
Income before patronage allocation to members and income taxes			
		32,513	31,066
Patronage allocation to members		7,046	6,736
Income before income taxes		25,467	24,330
Income taxes		5,720	5,102
Net income and comprehensive income		\$ 19,747	\$ 19,228
Net income and comprehensive income attributable to:			
Members of the Credit Union		\$ 19,746	\$ 19,213
Non-controlling interest		1	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 Equity
(Canadian \$ thousands)
(unaudited)

	Three months ended January 31 2014	Three months ended January 31 2013
Share capital		
Common shares		
Balance, beginning of period	\$ 418,161	\$ 393,027
Issued	5,197	6,688
Redeemed	(11,535)	(10,564)
Balance, end of period	411,823	389,151
Investment shares		
Balance, beginning of period	110,848	109,172
Redeemed	(1,484)	(2,026)
Balance, end of period	109,364	107,146
Share capital, end of period	\$ 521,187	\$ 496,297
Retained earnings		
Balance, beginning of period	\$ 530,067	\$ 473,163
Net income	19,747	19,228
Retained earnings, end of period	\$ 549,814	\$ 492,391
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	\$ 1,071,448	\$ 988,913
Non-controlling interest		
Balance, beginning of period	1,014	1,032
Net income	1	15
Non-controlling interest, end of period	1,015	1,047
Total equity	\$ 1,072,463	\$ 989,960

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)

	Three months ended January 31 2014	Three months ended January 31 2013
Cash Flows (Used in) From Operating Activities		
Net income	\$ 19,747	\$ 19,228
Adjustments for non-cash items and others		
Net interest income	(85,731)	(84,564)
Provision for credit losses	2,275	4,177
Net income attributable to non-controlling interest	1	15
Net income from investments in associates	(2,675)	(3,423)
Depreciation and amortization	3,981	4,166
Impairment of intangible assets	-	19
Gain on assets held for sale	(547)	(206)
Gain on sale of property and equipment	(12)	-
Income taxes	5,720	5,102
Adjustments for net changes in operating assets and liabilities		
Change in members' loans	(156,041)	(227,064)
Change in members' deposits	319,548	(22,897)
Change in assets held for sale	1,353	2,911
Change in derivatives	(646)	(926)
Net change in other assets, provisions, and trade payables and other liabilities	(37,246)	(29,816)
Income taxes received and paid, net	(6,655)	(2,993)
Interest received	123,762	119,507
Interest paid	(43,590)	(39,854)
Net cash from (used in) operating activities	143,244	(256,618)
Cash Flows From (Used in) Investing Activities		
Additions to intangible assets	(3,376)	(4,770)
Additions to property and equipment and investment property	(1,408)	(2,477)
Proceeds on disposal of property and equipment, and investment property	18	-
Proceeds on disposal of assets held for sale	806	-
Investments	(177,724)	(20,222)
Net cash (used in) investing activities	(181,684)	(27,469)
Cash Flows From Financing Activities		
Advances of term loans payable and line of credit	-	175,000
Repayment of secured borrowing	(716)	-
Repayment of obligation under finance leases	-	(69)
Shares issued	5,197	6,688
Shares redeemed	(13,019)	(12,590)
Net cash (used in) from financing activities	(8,538)	169,029
(Decrease) in Cash and cash equivalents	(46,978)	(115,058)
Cash and cash equivalents, beginning of period	142,310	176,832
Cash and cash equivalents, end of period	\$ 95,332	\$ 61,774

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 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 March 27, 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 January 31 2014	As at October 31 2013
Cash on hand	\$ 15,833	\$ 16,996
ATM	15,012	11,431
Foreign exchange cash	204	105
Cash with Alberta Central	62,527	117,891
Cheques and items in transit	1,756	(4,113)
Total	\$ 95,332	\$ 142,310

5. MEMBERS' LOANS

	Gross Amount	Specific allowance	Collective allowance	Net Amount	Impaired Loans
As at January 31, 2014					
Residential mortgages	\$ 6,710,453	\$ 615	\$ 1,307	\$ 6,708,531	\$ 1,622
Commercial mortgages and loans	3,706,772	26,441	1,850	3,678,481	35,209
Consumer loans	1,147,790	2,714	3,627	1,141,449	4,253
Agricultural mortgages and loans	329,643	49	44	329,550	724
	11,894,658	29,819	6,828	11,858,011	41,808
Accrued interest	39,322	1,483	537	37,302	-
Total	\$ 11,933,980	\$ 31,302	\$ 7,365	\$ 11,895,313	\$ 41,808

	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

SERVUS CREDIT UNION LTD.
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	-	19	400	-	-	419
Allowance charged to net income	145	1,446	192	3	189	1,975
	800	26,610	3,987	49	1,609	33,055
Loans written off	185	169	1,273	-	126	1,753
As at January 31, 2014	\$ 615	\$ 26,441	\$ 2,714	\$ 49	\$ 1,483	\$ 31,302

	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	90	(659)	811	23	35	300
As at January 31, 2014	\$ 1,307	\$ 1,850	\$ 3,627	\$ 44	\$ 537	\$ 7,365

	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 January 31, 2014</i>	Residential	Commercial	Consumer	Agricultural	Total
Risk Categories					
1 to 5 - Satisfactory risk	\$ -	\$ 3,634,457	\$ -	\$ 325,327	\$ 3,959,784
6 - Watch list	-	20,895	-	2,951	23,846
8 - Impaired risk - performing	-	33	-	-	33
7 and 9 - Delinquent but secured	-	16,178	-	641	16,819
Commercial & agricultural mortgages and loans not impaired	-	3,671,563	-	328,919	4,000,482
Residential mortgages and personal loans not impaired	6,708,831	-	1,143,537	-	7,852,368
Loans not impaired	6,708,831	3,671,563	1,143,537	328,919	11,852,850
Loans specifically impaired	1,622	35,209	4,253	724	41,808
Sub Total	6,710,453	3,706,772	1,147,790	329,643	11,894,658
Accrued interest	11,739	12,673	11,976	2,934	39,322
Total	\$ 6,722,192	\$ 3,719,445	\$ 1,159,766	\$ 332,577	\$ 11,933,980

<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 January 31, 2014

	Residential	Commercial	Consumer	Agricultural	Total
Past due up to 29 days	\$ 110,515	\$ 9,231	\$ 12,970	\$ 2,602	\$ 135,318
Past due 30 - 59 days	26,978	22,614	5,202	6,697	61,491
Past due 60 - 89 days	8,488	2,648	2,344	1,293	14,773
Past due over 90 days	11,636	58,532	4,978	2,280	77,426
Total	\$ 157,617	\$ 93,025	\$ 25,494	\$ 12,872	\$ 289,008

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 January 31, 2014

	Residential	Commercial	Consumer	Agricultural	Total
Past due up to 29 days	\$ 110,515	\$ 9,039	\$ 12,844	\$ 2,602	\$ 135,000
Past due 30 - 59 days	26,978	22,614	5,060	6,697	61,349
Past due 60 - 89 days	8,488	2,399	2,135	1,293	14,315
Past due over 90 days	10,014	23,764	1,202	1,556	36,536
Total	\$ 155,995	\$ 57,816	\$ 21,241	\$ 12,148	\$ 247,200

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 January 31 2014	As at October 31 2013
Loans by security:		
Secured by mortgage	\$ 8,653,601	\$ 8,515,834
Secured by other	2,599,359	2,566,171
Unsecured	681,020	698,886
Total	\$11,933,980	\$ 11,780,891

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Notes to Interim Condensed Consolidated Financial Statements
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8. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

	As at January 31 2014	As at October 31 2013
Derivative Financial Assets		
Equity-linked options	\$ 8,080	\$ 7,585
Embedded purchase option	18,029	17,391
Total	\$ 26,109	\$ 24,976
Derivative Financial Liabilities		
Embedded derivatives	\$ 8,034	\$ 7,546
Interest rate swaps and cap options	-	1
Total	\$ 8,034	\$ 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.

9. SUBSEQUENT EVENT

On March 14, 2014, the Credit Union received a distribution from Credit Union Central in the amount of \$8,410. The distribution will be recorded as a reduction in Investment in Associates.