

SERVUS CREDIT UNION LTD.
Interim Condensed Consolidated Financial Statements
For the three months ended
January 31, 2016
(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 2016	October 31 2015
Assets			
Cash and cash equivalents	5	\$ 106,447	\$ 188,389
Investments		1,013,613	944,183
Members' loans	6,8	12,847,509	12,702,332
Assets held for sale		7,755	6,390
Other assets		16,127	11,621
Property and equipment		165,517	170,612
Investment property		6,795	5,489
Derivative financial assets	9	23,821	24,711
Investments in associates		175,222	173,475
Intangible assets		49,189	48,019
Deferred income tax assets		84	84
Total assets		14,412,079	14,275,305
Liabilities			
Borrowings		778,572	610,431
Members' deposits		12,209,017	12,232,840
Trade payables and other liabilities		119,378	145,744
Income taxes payable		7,845	3,533
Derivative financial liabilities	9	2,014	2,778
Investment shares		489	489
Defined benefit plans		7,003	6,995
Deferred income tax liabilities		17,981	18,028
Total liabilities		13,142,299	13,020,838
Equity			
Share capital		602,522	609,477
Retained earnings		665,076	642,675
Accumulated other comprehensive income		1,180	1,313
Total equity attributable to members of the Credit Union		1,268,778	1,253,465
Non-controlling interest		1,002	1,002
Total equity		1,269,780	1,254,467
Total liabilities and equity		\$ 14,412,079	\$ 14,275,305

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)

Notes	Three months ended January 31 2016	Three months ended January 31 2015
Interest income		
Members' loans	\$ 117,799	\$ 123,493
Investments	2,462	(1,760)
Total interest income	120,261	121,733
Interest expense		
Members' deposits	25,311	35,391
Other interest expense	3,300	859
Total interest expense	28,611	36,250
Net interest income		
	91,650	85,483
Other income	20,612	21,151
Share of profits from associates	1,736	1,733
Net interest income and other income	113,998	108,367
Provision for credit losses	7	5,647
Net interest income after provision for credit losses	108,351	106,299
Operating expenses		
Personnel	44,807	45,211
General	10,370	13,410
Occupancy	5,101	5,051
Member security	5,503	5,645
Depreciation	3,785	3,690
Organization	1,330	1,282
Amortization	(390)	1,245
Total operating expenses	70,506	75,534
Income before patronage allocation to members and income taxes		
	37,845	30,765
Patronage allocation to members	7,803	7,425
Income before income taxes	30,042	23,340
Income taxes	7,641	5,430
Net income	\$ 22,401	\$ 17,910
Other comprehensive income	(133)	-
Total comprehensive income	\$ 22,268	\$ 17,910
Other Comprehensive income for the year, net of tax:		
Share of other comprehensive income of associates		
Actuarial (losses) on defined benefit pension plans ⁽¹⁾ (net of income tax expense of \$75)	(215)	-
Unrealized gains and reclassification adjustments on available for sale securities (net of income tax recovery of \$(29)) ⁽²⁾	82	-
Total other comprehensive (loss)/income	\$ (133)	\$ -
Total Comprehensive Income		
Comprehensive income attributable to members	22,268	17,909
Comprehensive loss attributable to non-controlling interest	-	1
Total comprehensive income	\$ 22,268	\$ 17,910

⁽¹⁾ The Actuarial gains/losses will not be reclassified to profit or loss at a future date

⁽²⁾ These items may be reclassified to profit or loss at a future date

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

	Common shares	Investment shares	Retained earnings	Accumulated other comprehensive income	Non-controlling interest	Total equity
Balance at October 31, 2014	\$ 445,566	\$ 113,513	\$ 581,776	\$ 907	\$ 1,012	\$ 1,142,774
Changes in equity						
Issues of share capital	15,460	-	-	-	-	15,460
Redemption of share capital	(15,081)	(2,620)	-	-	-	(17,701)
Net Income	-	-	17,909	-	1	17,910
Balance at January 31, 2015	\$ 445,945	\$ 110,893	\$ 599,685	\$ 907	\$ 1,013	\$ 1,158,443

	Common shares	Investment shares	Retained earnings	Accumulated other comprehensive income	Non-controlling interest	Total equity
Balance at October 31, 2015	\$ 494,685	\$ 114,792	\$ 642,675	\$ 1,313	\$ 1,002	\$ 1,254,467
Changes in equity						
Issues of share capital	10,997	-	-	-	-	10,997
Redemption of share capital	(15,513)	(2,439)	-	-	-	(17,952)
Net Income	-	-	22,401	-	-	22,401
Share of other comprehensive income of associates	-	-	-	(133)	-	(133)
Balance at January 31, 2016	\$ 490,169	\$ 112,353	\$ 665,076	\$ 1,180	\$ 1,002	\$ 1,269,780

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 2016	Three months ended January 31 2015
Cash Flows (Used in) From Operating Activities		
Net income	\$ 22,401	\$ 17,910
Adjustments for non-cash items and others		
Net interest income	(91,650)	(85,483)
Provision for credit losses	5,647	2,068
Share of profits from investments in associates	(1,736)	(1,733)
Depreciation and amortization	3,395	4,935
Gain on assets held for sale	(50)	(51)
Loss (gain) on sale of property and equipment	21	(5)
Income taxes	7,641	5,430
Adjustments for net changes in operating assets and liabilities		
Change in members' loans	(154,007)	35,973
Change in members' deposits	(26,397)	23,712
Change in assets held for sale	(2,244)	(9,091)
Change in derivatives	126	(11,277)
Net change in other assets, provisions, and trade payables and other liabilities	(31,008)	(54,429)
Income taxes received and paid, net	(3,376)	(3,131)
Interest received	124,172	122,737
Interest paid	(26,032)	(52,046)
Net Cash (Used in) Operating Activities	(173,097)	(4,481)
Cash Flows From (Used in) From Investing Activities		
Additions to intangible assets	(780)	(2,282)
Additions to property and equipment, and investment property	(482)	(3,095)
Proceeds on disposal of property and equipment, and investment property	13	51
Proceeds on disposal of assets held for sale	1,381	1,266
Investments	(70,158)	(34,290)
Net Cash (Used in) Investing Activities	(70,026)	(38,350)
Cash Flows From (Used in) Financing Activities		
Advances of term loans and lines of credit	6,270,129	404,128
Repayment of term loans and lines of credit	(6,161,877)	(430,249)
Advances of secured borrowing	81,505	69,913
Repayment of secured borrowing	(21,621)	(3,694)
Shares issued	10,997	15,460
Shares redeemed	(17,952)	(17,701)
Net Cash From Financing Activities	161,181	37,857
(Decrease) in Cash and Cash Equivalents	(81,942)	(4,974)
Cash and cash equivalents, beginning of period	188,389	124,813
Cash and Cash Equivalents, End of Period	\$ 106,447	\$ 119,839

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 2015 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 2015 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 21, 2016.

Significant Accounting Estimates, Assumptions and Judgements

The preparation of the interim condensed consolidated 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 of Servus' 2015 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 2015 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' 2015 annual consolidated financial statements.

4. FUTURE CHANGES IN ACCOUNTING POLICIES

The Credit Union is currently assessing the impact of adopting the following standard on the financial statements. At this time, the impact of this change to the Credit Union is unknown.

- **Effective for the Credit Union - November 1, 2017**
 - **IAS 7 Statement of Cash Flows (IAS 7)**

In January 2016, the IASB issued amendments to IAS 7, which will require specific disclosures for movements in certain liabilities on the statement of cash flow.

- **Effective for the Credit Union - November 1, 2019**
 - **IFRS 16 Leases**

In January 2016, the IASB issued IFRS 16 which sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard removed the current requirement for lessees to classify leases as finance leases or operating leases by introducing a single lessee accounting model that requires the recognition of lease assets and lease liabilities on the balance sheet for most leases. Lessees will also recognize depreciation expense on the lease asset and interest expense on the lease liability in the statement of income. There is no significant changes to lessor accounting aside from enhanced disclosure requirements.

SERVUS CREDIT UNION LTD.
Notes to Interim Condensed Consolidated Financial Statements
(Canadian \$ thousands)
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5. CASH AND CASH EQUIVALENTS

	As at January 31 2016	As at October 31 2015
Cash on hand	\$ 13,850	\$ 13,312
ATM	15,581	10,224
Foreign exchange cash	905	625
Cash with Alberta Central	75,233	165,172
Cheques and items in transit	878	(944)
Total	\$ 106,447	\$ 188,389

6. MEMBERS' LOANS

	Gross Amount	Specific allowance	Collective allowance	Net Amount	Impaired Loans
As at January 31, 2016					
Residential mortgages	\$ 7,390,653	\$ 347	\$ 953	\$ 7,389,353	\$ 567
Commercial mortgages and loans	4,079,862	16,605	4,349	4,058,908	28,528
Consumer loans	1,034,726	2,661	8,308	1,023,757	5,138
Agricultural mortgages and loans	340,284	595	3	339,686	1,321
	12,845,525	20,208	13,613	12,811,704	35,554
Accrued interest	38,021	1,507	709	35,805	-
Total	\$ 12,883,546	\$ 21,715	\$ 14,322	\$ 12,847,509	\$ 35,554

	Gross Amount	Specific allowance	Collective allowance	Net Amount	Impaired Loans
As at October 31, 2015					
Residential mortgages	\$ 7,325,389	\$ 344	\$ 935	\$ 7,324,110	\$ 523
Commercial mortgages and loans	3,973,739	15,926	5,576	3,952,237	26,137
Consumer loans	1,055,234	2,544	5,346	1,047,344	4,924
Agricultural mortgages and loans	342,073	135	2	341,936	626
	12,696,435	18,949	11,859	12,665,627	32,210
Accrued interest	38,988	1,601	682	36,705	-
Total	\$ 12,735,423	\$ 20,550	\$ 12,541	\$ 12,702,332	\$ 32,210

SERVUS CREDIT UNION LTD.
Notes to Interim Condensed Consolidated Financial Statements
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7. ALLOWANCE FOR CREDIT LOSSES

Specific Allowance	Residential	Commercial	Consumer	Agricultural	Interest	Total
As at October 31, 2015	\$ 344	\$ 15,926	\$ 2,544	\$ 135	\$ 1,601	\$ 20,550
Recoveries of previous loan write offs	-	48	245	-	-	293
Allowance charged to net income	178	928	2,032	460	268	3,866
	522	16,902	4,821	595	1,869	24,709
Loans written off	175	297	2,160	-	362	2,994
As at January 31, 2016	\$ 347	\$ 16,605	\$ 2,661	\$ 595	\$ 1,507	\$ 21,715

	Residential	Commercial	Consumer	Agricultural	Interest	Total
As at October 31, 2014	\$ 804	\$ 27,210	\$ 2,244	\$ 85	\$ 1,954	\$ 32,297
Recoveries of previous loan write offs	12	3,573	1,235	-	-	4,820
Allowance charged to net income	1,050	4,656	4,814	52	298	10,870
	1,866	35,439	8,293	137	2,252	47,987
Loans written off	1,522	19,513	5,749	2	651	27,437
As at October 31, 2015	\$ 344	\$ 15,926	\$ 2,544	\$ 135	\$ 1,601	\$ 20,550

Collective Allowance	Residential	Commercial	Consumer	Agricultural	Interest	Total
As at October 31, 2015	\$ 935	\$ 5,576	\$ 5,346	\$ 2	\$ 682	\$ 12,541
Allowance charged to net income	18	(1,227)	2,962	1	27	1,781
As at January 31, 2016	\$ 953	\$ 4,349	\$ 8,308	\$ 3	\$ 709	\$ 14,322

	Residential	Commercial	Consumer	Agricultural	Interest	Total
As at October 31, 2014	\$ 931	\$ 2,282	\$ 4,089	\$ 2	\$ 517	\$ 7,821
Allowance charged to net income	4	3,294	1,257	-	165	4,720
As at October 31, 2015	\$ 935	\$ 5,576	\$ 5,346	\$ 2	\$ 682	\$ 12,541

8. 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.

As at January 31, 2016	Residential	Commercial	Consumer	Agricultural	Total
Risk Categories					
1 to 5 - Satisfactory risk	\$ -	\$ 3,993,939	\$ -	\$ 337,239	\$ 4,331,178
6 - Watch list	-	26,550	-	408	26,958
8 - Impaired risk - performing	-	1,737	-	234	1,971
7 and 9 - Unacceptable/impaired risk - non-performing	-	29,108	-	1,082	30,190
Loans without risk rating	7,390,086	-	1,029,588	-	8,419,674
Loans not impaired	7,390,086	4,051,334	1,029,588	338,963	12,809,971
Loans specifically impaired	567	28,528	5,138	1,321	35,554
Sub Total	7,390,653	4,079,862	1,034,726	340,284	12,845,525
Accrued interest	11,633	13,002	10,429	2,957	38,021
Total	\$ 7,402,286	\$ 4,092,864	\$ 1,045,155	\$ 343,241	\$ 12,883,546

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

<i>As at October 31, 2015</i>	Residential	Commercial	Consumer	Agricultural	Total
<i>Risk Categories</i>					
1 to 5 - Satisfactory risk	\$ -	\$ 3,920,580	\$ -	\$ 340,399	\$ 4,260,979
6 - Watch list	-	18,303	-	160	18,463
8 - Impaired risk - performing	-	1,400	-	237	1,637
7 and 9 - Unacceptable/impaired risk - non-performing	-	7,319	-	651	7,970
Loans without risk rating	7,324,866	-	1,050,310	-	8,375,176
Loans not impaired	7,324,866	3,947,602	1,050,310	341,447	12,664,225
Loans specifically impaired	523	26,137	4,924	626	32,210
Sub Total	7,325,389	3,973,739	1,055,234	342,073	12,696,435
Accrued interest	11,269	12,705	11,077	3,937	38,988
Total	\$ 7,336,658	\$ 3,986,444	\$ 1,066,311	\$ 346,010	\$ 12,735,423

- **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.

Loans past due, as at January 31, 2016

	Residential	Commercial	Consumer	Agricultural	Total
Past due up to 29 days	\$ 129,554	\$ 21,726	\$ 22,530	\$ 1,964	\$ 175,774
Past due 30 - 59 days	35,416	30,129	7,723	1,734	75,002
Past due 60 - 89 days	14,059	13,246	2,591	860	30,756
Past due over 90 days	17,603	39,673	5,114	2,458	64,848
Total	\$ 196,632	\$ 104,774	\$ 37,958	\$ 7,016	\$ 346,380

Loans past due, as at October 31, 2015

	Residential	Commercial	Consumer	Agricultural	Total
Past due up to 29 days	\$ 124,570	\$ 17,131	\$ 20,950	\$ 4,017	\$ 166,668
Past due 30 - 59 days	37,166	24,974	6,947	2,480	71,567
Past due 60 - 89 days	13,063	3,341	2,476	11	18,891
Past due over 90 days	13,436	33,674	4,608	1,360	53,078
Total	\$ 188,235	\$ 79,120	\$ 34,981	\$ 7,868	\$ 310,204

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:

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

Loans past due but not impaired, as at January 31, 2016

	Residential	Commercial	Consumer	Agricultural	Total
Past due up to 29 days	\$ 129,554	\$ 21,698	\$ 22,260	\$ 1,964	\$ 175,476
Past due 30 - 59 days	35,416	29,351	7,062	1,734	73,563
Past due 60 - 89 days	14,059	8,071	2,486	832	25,448
Past due over 90 days	17,036	17,126	1,012	1,165	36,339
Total	\$ 196,065	\$ 76,246	\$ 32,820	\$ 5,695	\$ 310,826

Loans past due but not impaired, as at October 31, 2015

	Residential	Commercial	Consumer	Agricultural	Total
Past due up to 29 days	\$ 124,570	\$ 17,131	\$ 20,649	\$ 4,017	\$ 166,367
Past due 30 - 59 days	37,166	24,973	6,655	2,480	71,274
Past due 60 - 89 days	13,064	3,286	1,951	11	18,312
Past due over 90 days	12,912	7,593	802	734	22,041
Total	\$ 187,712	\$ 52,983	\$ 30,057	\$ 7,242	\$ 277,994

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 exposure risk.

	As at January 31 2016	As at October 31 2015
Loans by security:		
Insured loans and mortgages	\$ 2,493,946	\$ 2,588,166
Secured by mortgage	7,708,834	7,295,724
Secured by other	2,006,518	2,190,710
Unsecured	674,248	660,823
Total	\$ 12,883,546	\$ 12,735,423

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

As at January 31, 2016	Equity-linked options	Embedded purchase option	Interest rate swaps	Bond Forwards	Total
Financial Derivative Assets					
Gross amounts of financial assets before statement of financial position offsetting	\$ -	\$ -	\$ 3,163	\$ -	\$ 3,163
Gross amounts of financial liabilities before statement of financial position offsetting	-	-	(2,104)	-	(2,104)
Net amount of financial assets presented on the statement of financial position	-	-	1,059	-	1,059
Amounts not subject to enforceable netting arrangements	2,022	20,620	-	120	22,762
Total	\$ 2,022	\$ 20,620	\$ 1,059	\$ 120	\$ 23,821
Financial Derivative Liability amounts not subject to enforceable netting arrangements	\$ 2,014	\$ -	\$ -	\$ -	\$ 2,014

As at October 31, 2015	Equity-linked options	Embedded purchase option	Interest rate swaps	Bond Forwards	Total
Financial Derivative Assets					
Gross amounts of financial assets before statement of financial position offsetting	\$ -	\$ -	\$ 3,955	\$ -	\$ 3,955
Gross amounts of financial liabilities before statement of financial position offsetting	-	-	(3,066)	-	(3,066)
Net amount of financial assets presented on the statement of financial position	-	-	889	-	889
Amounts not subject to enforceable netting arrangements	2,790	21,032	-	-	23,822
Total	\$ 2,790	\$ 21,032	\$ 889	\$ -	\$ 24,711
Financial Derivative Liability amounts not subject to enforceable netting arrangements	\$ 2,778	\$ -	\$ -	\$ -	\$ 2,778

The notional amounts of derivative financial instrument contracts maturing at various times are:

	1 to 3 months	3 to 12 months	1 to 5 years	As at January 31 2016	As at October 31 2015
Interest rate swaps					
receive floating, pay fixed	\$ -	\$ -	\$ 200,000	\$ 200,000	\$ 200,000
Equity-linked options	21,446	-	46,401	67,847	64,357
Bond forward contracts	-	-	50,000	50,000	-
Total	\$ 21,446	\$ -	\$ 296,401	\$ 317,847	\$ 264,357

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9. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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 automatically renews annually 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 2016.

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.

Bond Forward Contracts

Bond forward contracts are contractual obligations to buy or sell an interest-rate sensitive bond on a predetermined future date at a specified price.

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.