HAMILTON MUNICIPAL EMPLOYEES' CREDIT UNION LIMITED

FINANCIAL STATEMENTS

For the year ended December 31, 2015

Millards
Chartered Accountants

HAMILTON MUNICIPAL EMPLOYEES' CREDIT UNION LIMITED

For the year ended December 31, 2015

INDEX

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Chartered Accountants

P.O. Box 367, 96 Nelson Street
Brantford, Ontario N3T 5N3
Telephone: (519) 759-3511
Facsimile: (519) 759-7961

INDEPENDENT AUDITORS' REPORT

To the Members of Hamilton Municipal Employees' Credit Union Limited

We have audited the accompanying financial statements of Hamilton Municipal Employees' Credit Union Limited, which comprise the statement of financial position as at December 31, 2015, and the statements of comprehensive income, changes in members' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Hamilton Municipal Employees' Credit Union Limited as at December 31, 2015 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Millard, Rouse & Rosebrugh LLP

February 18, 2016
Brantford, Ontario

CHARTERED PROFESSIONAL ACCOUNTANTS
Licensed Public Accountants

Millard, Rouse & Rosebrugh LLP
Brantford • Hagersville • Simcoe • Delhi • Norwich • Tillsonburg

HAMILTON MUNICIPAL EMPLOYEES' CREDIT UNION LIMITED

STATEMENT OF FINANCIAL POSITION

As at December 31	2015	2014
ASSETS		
Current Assets		
Cash and bank	6,177,042	4,072,768
Investments (Note 4)	12,081,145	11,657,661
Derivatives (Note 5)	438,253	643,962
Loans to members (Note 6)	149,809,164	143,630,778
Accounts receivable	197,635	234,168
Prepaid expenses	349,009	413,574
Property, plant and equipment (Note 8)	2,399,242	2,543,455
Intangible assets (Note 8)	372,859	313,265
	171,824,349	163,509,631
LIABILITIES		
Members' deposits (Note 9)	158,955,117	150,804,111
Accounts payable and accrued liabilities	1,050,581	904,847
Derivatives (Note 5)	269,664	565,911
Income taxes payable	23,998	4,504
Deferred income tax liability (Note 15)	102,650	90,237
Members' share capital (Note 10)	946,834	974,107
	161,348,844	153,343,717
MEMBERS' EQUITY		
Undivided Earnings	114,048	109,044
Accumulated Other Comprehensive Income	111,457	56,870
Reserves (Note 11)	10,250,000	10,000,000
	10,475,505	10,165,914
	171,824,349	163,509,631

See accompanying notes

HAMILTON MUNICIPAL EMPLOYEES' CREDIT UNION LIMITED

STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31	**2015**	**2014**
Interest Revenue (Note 13)	6,217,351	6,284,134
Interest Expense (Note 14)	1,621,927	1,620,266
Interest Margin	4,595,424	4,663,868
Other income	1,892,619	1,821,987
Income Before Operating Expenses	6,488,043	6,485,855
Operating Expenses		
Employee salaries and benefits	3,427,397	3,425,930
Occupancy	489,001	484,182
Administration	756,721	731,440
Data processing	744,529	779,760
Lending	191,538	127,233
Loan protection and life savings insurance	30,755	31,673
Member deposit insurance	131,762	153,165
Board and committee expenses	52,908	59,405
Depreciation	363,028	343,805
	6,187,639	6,136,593
Income Before Income Taxes	300,404	349,262
Income taxes - current (Note 15)	43,000	32,445
- deferred (Note 15)	2,400	21,594
Net Income	255,004	295,223
Other Comprehensive Income (Loss)		
Change in unrealized gains / (losses) on derivative instruments designated as cash flow hedges	64,600	29,744
Tax effect of change in unrealized gains on cash flow hedges	(10,013)	(4,610)
Other Comprehensive Income for the Year	54,587	25,134
Comprehensive Income for the Year	309,591	320,357

See accompanying notes

HAMILTON MUNICIPAL EMPLOYEES' CREDIT UNION LIMITED

STATEMENT OF CHANGES IN MEMBERS' EQUITY

	Accumulated Other Comprehensive Income Cash Flow Hedges	Reserves	Retained Earnings	Total
Balance at January 1, 2014	31,736	9,600,000	213,821	9,845,557
Net Income			295,223	295,223
Transfer to reserves	-	400,000	(400,000)	-
Change in unrealized gains / (losses) on cash flow hedges	25,134	-	-	25,134
Balance at December 31, 2014	56,870	10,000,000	109,044	10,165,914
Net Income			255,004	255,004
Transfer to reserves	-	250,000	(250,000)	-
Change in unrealized gains / (losses) on cash flow hedges	54,587	-	-	54,587
Balance at December 31, 2015	111,457	10,250,000	114,048	10,475,505

See accompanying notes

HAMILTON MUNICIPAL EMPLOYEES' CREDIT UNION LIMITED

STATEMENT OF CASH FLOWS

For the year ended December 31	2015	2014
Cash Flows From Operating Activities		
Net Income	255,004	295,223
Adjustments for:		
Interest revenue	(6,217,351)	(6,284,134)
Interest expense	1,621,927	1,620,266
Interest received on member loans	5,909,020	6,030,884
Interest received on investments	328,943	287,689
Interest paid on member deposits	(1,634,006)	(1,541,390)
Amortization	363,028	343,805
Deferred income taxes	2,400	21,594
Income taxes (paid) recovered	(23,506)	(33,388)
Net change in non-cash working capital balances related to operations	263,894	(201,308)
	869,353	539,241
Cash Flows From Financing Activities		
Member deposits and share capital	8,135,812	(693,690)
Cash Flows From Investing Activities		
Purchase of property, plant and equipment and intangible assets	(278,409)	(99,493)
Loans and mortgages to members	(6,171,190)	(2,278,434)
Investments	(451,292)	4,214,233
	(6,900,891)	1,836,306
Net Increase in Cash and Cash Equivalents	2,104,274	1,681,857
Opening Cash and Cash Equivalents	4,072,768	2,390,911
Closing Cash and Cash Equivalents	6,177,042	4,072,768

See accompanying notes

1. NATURE OF OPERATIONS

Reporting Entity
Hamilton Municipal Employees' Credit Union Limited (the credit union) is a company incorporated under the Credit Unions and Caisses Populaires Act, 1994 ("The Act") of Ontario. The credit union offers retail banking services to its members. The head office is located at 209 Limeridge Road East, Hamilton, Ontario.

These financial statements have been authorized for issue by the Board of Directors on February 18, 2016.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation
These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (the IASB).

These financial statements were prepared under the historical cost convention, as modified by the revaluation of financial assets and derivative financial instruments measured at fair value.

The credit union's functional and presentation currency is the Canadian dollar.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the credit union's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

Cash and Bank
Cash and bank includes cash on hand and deposits with banks. Cash and bank accounts are classified as available-for-sale and measured at fair value.

Central 1 Deposits
Deposits with Central 1 are classified as loans and receivables and are initially measured at fair value plus transaction costs. Subsequently these deposits are measured at amortized cost which approximates fair value.

Other Debt and Equity Instruments
Other debt and equity instruments which can be traded are classified as available-for-sale and initially measured at fair value. Subsequently they are carried at fair value unless they are not quoted in an active market and fair value is not reliably determinable in which case they are carried at cost.

Changes in fair value, except for those arising from interest calculated using the effective interest rate, are recognized as a separate component of other comprehensive income.

CUCO Coop Investments
The investment in CUCO Cooperative shares is designated as fair value through profit or loss and recorded at fair value. Changes in market value are recorded as investment income and included in net income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Hedges
The credit union periodically enters into derivative contracts to manage financial risks associated with movements in interest rates. The credit union does not enter into derivative financial instruments for trading or speculative purposes.

When derivatives are used to manage exposures, the credit union determines, for each derivative, whether hedge accounting can be applied. Where hedge accounting can be applied, a hedge relationship is designated as a cash flow hedge of a specifically identified group of assets or liabilities. The credit union formally assesses and documents whether these derivatives are effective in offsetting changes in cash flows of hedged assets or liabilities.

These derivatives are carried at fair value and are reported as assets when they have a positive fair value and as liabilities when they have a negative fair value. Gains and losses resulting from changes in fair value of the effective portion of the derivative instrument are recorded in other comprehensive income until the hedged item is recognized in income. The ineffective portion is recognized immediately in income as other income.

Market Based Deposits
The credit union has various deposits from members whereby interest will be paid based on certain market indicators. To offset exposure to fluctuations in these indicators, the credit union has entered into derivative contracts with Central 1 whereby Central 1 will pay the interest on these deposits. In return, the credit union will pay a fixed rate of interest to Central 1 on these deposits. These derivative contracts are designated as fair value through profit or loss and are measured at fair value both initially and subsequently.

Loans to Members
All loans to members are financial assets with fixed or determinable payments that are not quoted in an active market and have been classified as loans and receivables. Member loans are initially measured at fair value, net of loan origination fees. Loans are subsequently measured at amortized cost using the effective interest rate method, less any impairment. An allowance for doubtful loans is deducted from the total of the loans on the statement of financial position.

This allowance is calculated at the greater of the amount determined by specific account or the minimum allowance prescribed by By-Law #6 of the Deposit Insurance Corporation of Ontario.

Property, Plant and Equipment and Amortization
Property, plant and equipment assets are stated at cost. Depreciation is provided for in the accounts as follows:

Building	40 years straight line
Leasehold improvements	Remaining term of the lease
Furniture and fixtures	5 to 10 years straight line
Computer equipment	3 to 5 years straight line

Intangible Assets
Intangible assets consist of computer software, rights for the use of software, and costs incurred to acquire those rights. Intangible assets are initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment (losses). Depreciation is provided using the straight-line basis over 25 years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Accounts Payable

Liabilities for trade creditors and other payables are classified as other financial liabilities and initially measured at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently are carried at amortized cost using the effective interest rate method.

Income Taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are measured at the amount expected to be recovered from or paid to the taxation authorities using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable income will be available to allow the deferred tax asset to be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The amount of the deferred tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date and are expected to apply when the liabilities / (assets) are settled / (recovered).

Member Deposits

All member deposits are initially measured at fair value, net of any transaction costs directly attributable to the issuance of the instrument. Member deposits are subsequently measured at amortized cost, using the effective interest rate method.

Members' Shares

Members' shares issued by the credit union are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset.

Provisions

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue Recognition
Interest on loans and investments is recognized as earned at the end of each month and when ultimate collection is reasonably assured. Other income consists of commission income, service charges, and rent. Other income is recognized when the transaction generating the commission or service charge occurs. Rental income is earned at the end of each month of the rental contract.

Foreign Currency Translation
Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in net income. Exchange gains and losses arising on the retranslation of available for sale financial assets are treated as a separate component of the change in fair value and recognized in net income.

Standards, Amendments and Interpretations Not Yet Effective
Certain new standards, amendments and interpretations have been published that are mandatory for the credit union's accounting periods beginning on or after January 1, 2015 or later periods that the credit union has decided not to early adopt. The standards, amendments and interpretations that will be relevant to the credit union are:

(i) IFRS 9 Financial Instruments (2014) was released on July 24, 2014 as the final project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 simplifies the mixed measurement model and establishes two primary measurement categories for financial assets, amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. IFRS 9 also introduces a new "expected loss" impairment model which replaces the "incurred loss" model in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The credit union is in the process of evaluating the impact of the new standard and will continue to monitor developments that may impact its financial reporting.

None of the other new standards, interpretations or amendments, which are effective for the credit union's accounting periods beginning after January 1, 2015 and which have not been adopted early, are expected to impact on the credit union's future financial statements.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The credit union makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Fair Value of Financial Instruments
The credit union determines the fair value of financial instruments that are not quoted in an active market using valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot always be substantiated by comparison with independent markets and, in many cases, may not be capable of being realized immediately.

Loan Loss Provision
In determining whether an impairment loss should be recorded in the statement of comprehensive income the credit union makes judgment on whether objective evidence of impairment exists individually for financial assets that are individually significant. Where this does not exist the credit union uses its judgment to group member loans with similar credit risk characteristics to allow a collective assessment of the group to determine any impairment loss.

In determining the collective loan loss provision management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment.

4. INVESTMENTS

	2015	2014
Debt Instruments		
Central 1 Liquidity reserve deposit	10,315,974	9,917,340
Accrued interest	23,320	51,128
Total Central 1 Deposits	10,339,294	9,968,468
Equity Instruments		
Central 1 Credit Union - Class A	622,966	595,830
Central 1 Credit Union - Class E	692,400	692,400
CUCO Cooperative Association	425,000	399,478
Other investments	1,485	1,485
Total Equity Instruments	1,741,851	1,689,193
	12,081,145	11,657,661

As a condition of membership in Central 1, the credit union is required to maintain an interest bearing "liquidity reserve deposit" equal to 6% of its total assets at the end of each calendar quarter. Except for possible refunds occasioned by future reductions in total assets, this deposit is refundable to the credit union only in the event of the credit union's dissolution or withdrawal from membership in Central 1.

The shares in Central 1 are required as a condition of membership and are redeemable upon withdrawal of membership or at the discretion of the Board of Directors of Central 1. In addition, the member credit unions are subject to additional capital calls at the discretion of the Board of Directors.

Central 1 Class A shares are subject to an annual rebalancing mechanism and are redeemable at the option of Central 1. There is no separately quoted market value for these shares, however fair value is determined to be equivalent to the par value.

Central 1 Class E shares are redeemable at $100 per share. There is no separately quoted market value for these shares. The fair value is determined to equal the redemption value.

4. INVESTMENTS (Cont'd)

CUCO Cooperative Association
In 2008, as a condition of the formation of Central 1 Credit Union, the credit union was required to invest $967,409 in ABCP 2008 Limited Partnership units. On August 17, 2011, Credit Union Central of Ontario became CUCO Cooperative Association ("CUCO Coop"). On August 31, 2011, CUCO Coop purchased all of the assets of ABCP 2008 Limited Partnership in exchange for shares of CUCO Coop. On September 2, 2011, ABCP 2008 Limited Partnership distributed to each credit union such credit union's proportionate share of CUCO Coop Class B Investment Shares. The value previously held in the form of the credit union's LP units was effectively transferred to its new CUCO Coop Class B Investment Shares and the LP units have no value. As of September 2, 2011, the credit union received 252,660,328 Class B Investment Shares, which is 0.7243% of the total Class B Investment Shares outstanding. The credit union has designated this investment as fair value through profit and loss and adjustments to fair value are included in investment income. The fair value of the investment is determined by an independent valuation of the underlying investments of the CUCO Coop using valuation techniques based on discounted expected future cash flows.

5. DERIVATIVES

The credit union has outstanding $4,358,570 (2014 - $6,062,385) in index linked term deposits to its members. The index linked term deposits are three and five year deposits that pay interest at the end of the term, based on the performance of a variety of indices. The embedded derivatives associated with these deposits are presented in liabilities and have a fair value of $269,664 (2014 - $565,911).

The credit union has entered into hedge agreements with Central 1 to offset the exposure to the indices associated with this product, whereby the credit union pays a fixed rate of interest for the term of each index linked term deposit on the face value of the deposits sold. At the end of the term, the credit union receives an amount equal to the amount that will be paid to the depositors, based on the performance of the indices. As at December 31, 2015, the credit union had entered into such contracts on index linked term deposits for a total of $4,234,702. The agreements are secured by a general security agreement covering all assets of the credit union.

From time to time, in the ordinary course of business, the credit union enters into interest rate swaps in order to hedge against exposure to interest rate fluctuations. At December 31, 2015, the credit union was party to seven such agreements with Central 1 Credit Union. The agreements, in aggregate, represent a notional principal amount of $14,000,000 ($17,500,000 in 2014), maturing between January 2016 and June 2018.

Under the terms of these agreements, the credit union has contracted with the counter party to pay interest at a variable rate equivalent to the one month CDOR rate, to be repriced monthly, while receiving interest at a fixed rate on the notional principal amount. The credit union is currently receiving fixed rates on these swaps ranging from 1.56% to 2.01% and is paying variable rates as at December 31, 2015 ranging from 0.798% to 0.86%.

In the normal course of operations, the credit union enters into foreign exchange forward contracts to buy or sell foreign currencies at a set exchange rate. No such contracts were in effect at year end.

5. DERIVATIVES (Cont'd)

	2015	2014
Derivative assets		
Index linked hedge receivable from Central 1	269,664	565,911
Interest rate swaps	168,589	78,051
	438,253	643,962
Derivative liabilities		
Index linked derivatives payable on member deposits	269,664	565,911

These derivatives have a fair value that varies based on the particular contract and changes in interest rates. The purpose of these derivatives is to provide a hedge against interest rate fluctuations by improving the credit union's matching of its asset and liability positions.

6. LOANS TO MEMBERS

	2015	2014
Personal loans	17,600,388	17,219,784
Residential mortgages	126,280,906	121,060,017
Syndicated loans	5,871,758	5,273,714
Accrued interest	211,725	204,529
	149,964,777	143,758,044
Less: allowance for impaired loans (Note 7)	155,613	127,266
Total Loans Receivable	149,809,164	143,630,778

Personal loans consist of term loans and lines of credit that are not real estate secured and, as such, have various repayment terms. Some personal loans are secured by wage assignments and personal property or investments, and others are secured by wage assignment only. Personal loans have fixed or variable interest rates and a maximum term of 5 years with an average rate of 6.46% at December 31, 2015 (6.84% in 2014).

Residential mortgages are loans and lines of credit secured by residential property and are generally repayable monthly with blended payments of principal and interest. Residential mortgages have fixed or variable interest rates with an average rate of 3.65% at December 31, 2015 (3.79% in 2014).

6. LOANS TO MEMBERS (Cont'd)

Syndicated loans consist of commercial loans and mortgages to individuals, partnerships and corporations and have various repayment terms. They are secured by various types of collateral including mortgages on real property, general security agreements, and personal guarantees. These loans have fixed or variable interest rates with an average rate of 4.84% at December 31, 2015 (4.59% in 2014).

Credit Quality of Loans

It is not practical to value all collateral as at the balance sheet date due to the variety of assets and conditions. A breakdown of the security held on a portfolio basis is as follows:

	2015	2014
Unsecured loans	5,883,274	5,610,872
Loans secured by cash or property	11,717,114	11,608,912
Residential mortgages	108,976,791	98,634,689
Insured residential mortgages	17,304,115	22,425,328
Loans secured by commercial property	5,871,758	5,273,714
	149,753,052	143,553,515

Concentration of Risk

The credit union has an exposure to groupings of individual loans which concentrate risk and create exposure to particular segments as follows:

At December 31, 2015 there are 2 loans (2014 - 1 loan) that each individually exceed 10% of member equity. The combined total of these loans is as follows:

	2015	2014
Syndicated loans	2,826,473	1,456,271

All member loans are with members located in Southwestern Ontario.

7. ALLOWANCE FOR IMPAIRED LOANS

Total allowance for impaired loan provision comprises:

	2015	2014
Collective provision	88,250	86,620
Individual specific provision	67,363	40,646
Total provision	155,613	127,266

The allowance for impaired loans is broken down as follows:

	Allowance for Impaired Loans		Aggregate Impaired Loans	
	2015	2014	2015	2014
Personal loans	60,917	40,440	-	40,440
Lines of credit	6,446	206	-	29,507
Non-specified loans	88,250	86,620	-	-
Residential mortgages	-	-	-	82,228
	155,613	127,266	-	152,175

Movement in individual specific provision and collective provision for impairment:

2015	Specific Provision	Collective Provision	Total
Balance at January 1, 2015	40,646	86,620	127,266
Recoveries of loans previously written off	18,490	-	18,490
Provision charged to net income	88,117	1,630	89,747
	147,253	88,250	235,503
Loans written off	(79,890)	-	(79,890)
Balance at December 31, 2015	67,363	88,250	155,613

7. ALLOWANCE FOR IMPAIRED LOANS (Cont'd)

2014	Specific Provision	Collective Provision	Total
Balance at January 1, 2014	107,210	84,864	192,074
Recoveries of loans previously written off	11,427	-	11,427
Provision charged to net income	50,407	1,756	52,163
	169,044	86,620	255,664
Loans written off	(128,398)	-	(128,398)
Balance at December 30, 2014	40,646	86,620	127,266

Key Assumptions in Determining the Allowance for Impaired Loans Collective Provision

The credit union has determined the likely impairment loss on loans which have not maintained the loan repayments in accordance with the loan contract, or where there is other evidence of potential impairment such as industrial restructuring, job losses or economic circumstances. In identifying the impairment likely from these events the credit union estimates the potential impairment using the loan type, industry, geographical location, type of loan security, the length of time the loans are past due and the historical loss experience. The circumstances may vary for each loan over time, resulting in higher or lower impairment (losses). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the credit union to reduce any differences between loss estimates and actual loss experience.

For purposes of the collective provision, loans are classified into separate groups with similar risk characteristics, based on the type of product and type of security.

8. PROPERTY, PLANT AND EQUIPMENT

	Land	Building	Leasehold Improvements	Furniture & Fixtures	Computer Equipment	Total	Intangibles
Cost							
Balance at December 31, 2013	437,779	1,997,391	988,229	675,582	1,365,961	5,464,942	357,882
Additions	-	83	-	19,020	69,186	88,289	11,203
Balance at December 30, 2014	437,779	1,997,474	988,229	694,602	1,435,147	5,553,231	369,085
Additions	-	1,271	-	40,885	130,781	172,937	105,472
Balance at December 31, 2015	437,779	1,998,745	988,229	735,487	1,565,928	5,726,168	474,557
Accumulated Amortization							
Balance at December 31, 2013	-	908,594	340,777	523,288	937,379	2,710,038	11,754
Amortization expense	-	58,151	68,008	35,876	137,703	299,738	44,066
Balance at December 30, 2014	-	966,745	408,785	559,164	1,075,082	3,009,776	55,820
Amortization expense	-	53,125	68,009	37,019	158,997	317,150	45,878
Balance at December 31, 2015	-	1,019,870	476,794	596,183	1,234,079	3,326,926	101,698
Net book value							
December 31, 2014	437,779	1,030,729	579,444	135,438	360,065	2,543,455	313,265
December 31, 2015	437,779	978,875	511,435	139,304	331,849	2,399,242	372,859

9. MEMBERS' DEPOSITS

	2015	2014
Chequing accounts	15,803,463	13,675,317
Savings accounts	51,982,662	49,661,960
Term deposits	24,908,638	23,943,015
Tax free savings accounts	15,608,676	11,387,420
Registered retirement savings plans	34,644,540	36,281,695
Registered retirement income funds	15,339,175	15,174,662
Accrued interest	667,963	680,042
	158,955,117	150,804,111

Chequing and savings accounts are due on demand.

Term deposits have fixed rates of interest for terms up to five years, or pay a return based on market indexes. Interest can be paid monthly, annually, or upon maturity. At December 31, 2015, the average interest rate on term deposits was 1.76% (1.98% in 2014).

Registered retirement savings plan accounts can be fixed or variable rate, or pay a return based on market indexes. Fixed rate deposits have similar terms and rates as the term deposits described above.

Registered retirement income fund accounts can be fixed or variable rate with terms similar to those of registered retirement savings plan accounts described above. Members may make withdrawals from RRIFs on a monthly or annual basis according to individual needs and statutory requirements.

Tax free savings accounts can be fixed or variable rate with terms and conditions similar to those of the registered retirement savings plan accounts described above.

Concentration of Risk

The credit union has an exposure to groupings of individual deposits which concentrate risk and create exposure to particular segments.

No individuals or related groups of members' deposits exceed 1% of members' deposits.

All members' deposits are primarily with members located in Southwestern Ontario.

10. MEMBERS' SHARE CAPITAL

As a condition of membership, each member is required to hold a minimum of $25 in membership shares. This capital is of a permanent nature which cannot be withdrawn except upon the death or withdrawal from membership of the member. Any special dividends added to a member's permanent share capital account cannot be withdrawn except on the above conditions. As at December 31, 2015, the credit union had 12,093 members.

11. RESERVES

This amount is set aside in order to meet regulatory capital requirements (see Note 12) and to provide adequate operating capital.

On January 21, 2016, the Board of Directors approved a transfer of $250,000 to this reserve from undivided earnings.

12. CAPITAL MANAGEMENT

The credit union maintains policies and procedures relative to capital management so as to ensure that capital levels are sufficient to cover the risks inherent in the business. The credit union considers its capital to comprise cash resources, membership shares, undivided earnings, reserves, and the general allowance against doubtful loans.

The credit unions and Caisses Populaires Act, 1994 requires that the credit union maintain regulatory capital of 4% of total assets and 8% of a risk weighted equivalent value. The risk weighted equivalent value is calculated by applying risk weight percentages as prescribed by the Act to various assets, operational and interest rate risk criteria.

Regulatory capital	**2015**	**2014**
Tier 1 Capital		
Membership shares	946,834	974,107
Undivided earnings	114,048	109,044
Reserves	10,250,000	10,000,000
Tier 2 Capital		
Collective provision for impaired loans	88,250	86,620
	11,399,132	11,169,771
Percentage of total assets	6.6%	6.8%
Risk weighted equivalent value	74,803,743	74,943,899
Percentage of risk weighted assets	15.2%	14.9%

12. CAPITAL MANAGEMENT (Cont'd)

The Act also requires that the credit union maintain prudent levels of liquidity sufficient to meet its cash flow needs. Assets held for liquidity purposes include:

	2015	2014
Cash	6,177,042	4,072,768
Payroll deposits receivable	170,283	206,167
Liquidity deposits with Central 1 Credit Union	10,315,974	9,917,340
	16,663,299	14,196,275
% of member deposits	10.53 %	9.46 %

13. INTEREST REVENUE

	2015	2014
Personal loans	1,138,718	1,180,296
Mortgages	4,777,498	4,824,859
Investments	301,135	278,979
	6,217,351	6,284,134

14. INTEREST EXPENSE

	2015	2014
Demand savings accounts	211,638	256,165
Term deposits	480,273	412,987
Tax free savings accounts	159,352	139,502
Registered retirement savings plans	504,631	561,148
Registered retirement income funds	266,033	250,464
	1,621,927	1,620,266

15. INCOME TAX

The current income tax provision was calculated as follows:

	2015	2014
Income per statement before income taxes	300,404	349,262
Capital cost allowance in excess of amortization	5,722	(100,040)
Adjust allowance for impaired loans to allowance for tax purposes	2,834	(6,984)
Unrealized investment income	(25,522)	(32,911)
Other adjustments	1,495	1,241
Taxable income	284,933	210,568
Tax at prescribed rate of 26.50% (2014 - 26.50%)	75,507	55,801
Small business deduction	32,507	23,027
	43,000	32,445

Deferred Tax Expense	**2015**	**2014**
Origination and reversal of temporary differences	2,400	21,594

15. INCOME TAX (Cont'd)

The movement in deferred tax liabilities and assets are:

2015	Opening Balance	Recognized in Net Income	Recognized in OCI	Closing Balance
Property, plant and equipment	34,551	(1,117)	-	33,434
Investments	47,228	3,956	-	51,184
Allowance for impaired loans	(1,973)	(439)	-	(2,412)
Cash flow hedges	10,431	-	10,013	20,444
	90,237	2,400	10,013	102,650

2014	Opening Balance	Recognized in Net Income	Recognized in OCI	Closing Balance
Property, plant and equipment	19,062	15,489	-	34,551
Investments	42,127	5,101	-	47,228
Allowance for impaired loans	(2,977)	1,004	-	(1,973)
Cash flow hedges	5,821	-	4,610	10,431
	64,033	21,594	4,610	90,237

Expected settlement of deferred tax liabilities and assets are:

	2015	2014
Settled within 12 months	9,154	7,356
Settled after more than 12 months	93,496	82,881
	102,650	90,237

16. RELATED PARTY TRANSACTIONS

The credit union entered into the following transactions with key management personnel, which are defined by IAS 24, Related Party Disclosures, as those persons having authority and responsibility for planning, directing and controlling the activities of the credit union, including directors and management.

COMPENSATION	**2015**	**2014**
Salaries and other short-term employee benefits	561,777	644,648
Total pension and other post-employment benefits	100,286	51,990
	662,063	696,638

Loans to Key Management Personnel and Directors	**2015**	**2014**
Aggregate value of loans advanced	1,531,121	1,296,011
Interest received on loans advanced	54,814	45,191
Unused value of lines of credit	279,351	372,254

The credit union's policy for lending to key management personnel is that the loans are approved and deposits accepted on the same terms and conditions which apply to Members for each class of loan or deposit.

Deposits from Key Management Personnel and Directors	**2015**	**2014**
Aggregate value of term and savings deposits	1,032,318	1,087,625
Total interest paid on term and savings deposits	12,023	26,051

The credit union's policy for receiving deposits from key management personnel is that all transactions are approved and deposits accepted on the same terms and conditions which apply to Members for each type of deposit. There are no benefits or concessional terms and conditions applicable to key management personnel or close family members.

Included in board and committee expenses are honoraria totaling $41,630 (2014 - $41,484).

The Act requires the disclosure of remuneration paid to the five highest paid officers and/or employees whose total remuneration for the year exceeds $150,000.

	Salary	Value of Benefits
Douglas Mann, CEO	144,821	25,540

17. FINANCIAL INSTRUMENTS

The following table represents the carrying amount by classification.

	2015	2014
Available-for-Sale:		
Cash	6,177,042	4,072,768
Investments	1,316,851	1,289,715
	7,493,893	5,362,483
Loans and Receivables:		
Investments	10,339,294	9,968,468
Loans	149,809,164	143,630,778
Accounts receivable (other)	197,635	234,168
	160,346,093	153,833,414
Fair Value Through Profit and Loss:		
Investments	425,000	399,478
Derivative assets	269,664	565,911
Derivative liabilities	(269,664)	(565,911)
	425,000	399,478
Cash Flow Hedge:		
Derivative assets	168,589	78,051
Other Liabilities:		
Member deposits	158,955,117	150,804,111
Member shares	946,834	974,107
Accounts payable	1,050,581	904,847
	160,952,532	152,683,065

The amounts set out below represent the fair values of the credit union's financial instruments where fair value differs from carrying cost. Assets that are not considered financial instruments, such as property, plant and equipment, prepaid expenses and income taxes recoverable, are excluded.

Fair value of variable rate loans and member deposits are assumed to equal the book value as the interest rates on these loans and deposits reprice to market on a periodic basis.

Fair value of fixed rate investments, fixed rate loans, and fixed rate member deposits is determined by discounting the expected future cash flows of these investments, loans, and deposits at current market rates for products with similar terms and credit risks. Contractual cash flows are assumed to represent expected cash flows.

17. FINANCIAL INSTRUMENTS (Cont'd)

2015	Fair value	Book value	Fair value over (under) book value
Assets			
Investments	10,345,482	10,339,294	6,188
Loans and mortgages	150,208,824	149,809,164	399,660
Liabilities			
Member deposits	159,472,339	158,955,117	517,222

2014	Fair value	Book value	Fair value over (under) book value
Assets			
Investments	9,975,202	9,968,468	6,734
Loans and mortgages	143,786,024	143,630,778	155,246
Liabilities			
Member deposits	151,218,049	150,804,111	413,938

The following table provides an analysis of investments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

Level 1
Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities using the last bid price;

Level 2
Fair value fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3
Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the financial asset or financial liability is categorized is determined on the basis of the lowest level of input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of three levels.

17. FINANCIAL INSTRUMENTS (Cont'd)

December 31, 2015 **Financial Instruments** **Measured at Fair Value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and bank	6,177,042	-	-	6,177,042
Central 1 Credit Union - Class A	-	622,966	-	622,966
Central 1 Credit Union - Class E	-	692,400	-	692,400
Derivative assets	-	-	438,253	438,253
CUCO Cooperative Association	-	-	425,000	425,000
Derivative liabilities	-	-	269,664	269,664
Total fair value investments	6,177,042	1,315,366	593,589	8,085,997

December 31, 2014 **Financial Instruments** **Measured at Fair Value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and bank	4,072,768	-	-	4,072,768
Other debt instruments	-	-	-	-
Central 1 Credit Union - Class A	-	595,830	-	595,830
Central 1 Credit Union - Class E	-	692,400	-	692,400
Other investments	-	1,485	-	1,485
Derivative assets	-	-	643,962	643,962
CUCO Cooperative Association	-	-	399,478	399,478
Derivative liabilities	-	-	565,911	565,911
Total fair value investments	4,072,768	1,289,715	477,529	5,840,012

Reconciliation of Level 3 financial instruments	**2015**	**2014**
Balance beginning of year	477,529	684,318
Gains (losses) included in the statement of income as investment income	51,460	28,561
Gains (losses) included in other comprehensive income	64,600	29,744
Distributions received	-	(265,094)
Balance, end of year	593,589	477,529

18. RISK MANAGEMENT

The Board of Directors has overall responsibility for the determination of the credit union's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure effective implementation of the objectives and policies to the credit union's finance function. The Board of Directors receives monthly reports from the credit union's Chief Financial Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

Credit Risk

The credit union is exposed to the risk of loss related to loans and mortgages receivable. The credit union invests in loans as its primary source of revenue. Credit is granted through consideration of the member's character, credit history, capacity for debt, and value of collateral available to secure the loan. The risk of credit loss is mitigated by requiring collateral security on loans in excess of $30,000. Mortgages are secured by real property. Term loans and lines of credit are secured by other assets equivalent to the approved balance on the loan.

With respect to credit risk, the Board of Directors receives monthly reports summarizing new loans, delinquent loans and overdraft utilization. The Board of Directors also receives an analysis of bad debts and allowance for doubtful loans monthly.

A sizeable portfolio of the loan book is secured by residential property in Hamilton, Ontario. Therefore, the credit union is exposed to the risks in reduction of the loan to valuation ratio (LVR) cover should the property market be subject to a decline. The risk of (losses) from loans undertaken is primarily reduced by the nature and quality of the security taken.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Liquidity Risk

Liquidity risk consists of the risk that the credit union is unable to generate sufficient cash to meet commitments as they come due. The credit union maintains a liquidity reserve with Central 1 Credit Union as described in Note 4. The credit union is also required by statute to maintain a prescribed amount of liquid assets to mitigate liquidity risk. Liquidity requirements based on expected maturity of member deposits, and the corresponding maturity of investments in loans, is described in the chart under Interest Rate Risk below. The credit union mitigates this risk by monitoring cash activities and expected outflows so as to meet all cash outflow obligations as they fall due.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Currency Risk

Currency risk relates to the credit union operating in different currencies and converting non Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.

The credit union's foreign exchange risk is related to deposits and investments denominated in United States dollars. The credit union limits its holdings in foreign currency investments to 25% of the total investment portfolio in accordance with its investment policy. Total unhedged foreign currency must be less than 2% of total assets. Foreign currency changes are continually monitored for effectiveness of its foreign exchange mitigation activities and holdings are adjusted when offside of the investment policy.

18. RISK MANAGEMENT (Cont'd)

Interest Rate Risk
Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates. The credit union is exposed to this risk through traditional banking activities, such as deposit taking and lending.

The credit union is required to establish policies and procedures to limit its exposure to interest rate risk. These policies must ensure that the credit union's net earnings before income taxes are not impacted by an amount greater than 0.15% of the credit union's total assets based on interest rate fluctuations that may reasonably be expected to occur. Measurement and management of exposure of interest rate sensitivity is done through a combination of income simulation and maturity gap analysis. The credit union's interest rate risk results from the fact that the maturity or repricing dates for interest rate sensitive assets differs from that for the interest rate sensitive liabilities.

The credit union is exposed to interest rate price risk as a result of fixed rate financial instruments. The credit union is exposed to interest rate cash flow risk as a result of its variable rate financial instruments.

Fixed rate financial instruments maturity dates substantially coincide with interest adjustment dates.

The tables below identifies the maturity dates of interest rate sensitive financial instruments.

Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. The credit union's analysis of risk due to changes in interest rates determined that an increase in interest rates of 0.50% could result in an increase to net income of $56,180 while a decrease in interest rates of 0.50% could result in an increase to net income of $60,930.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

2015	Variable	Within 3 months	4 to 12 months	Greater than 1 year	Not rate sensitive	Total
Assets						
Cash and bank	3,411,284	-	-	-	2,765,758	6,177,042
effective rate %	0.90	-	-	-	-	
Loans	69,882,180	6,476,124	3,985,520	69,253,615	-	149,597,439
effective rate %	4.51	3.54	3.63	3.29	-	
Investments	-	3,446,725	3,387,734	3,481,515	1,741,851	12,057,825
effective rate %	-	0.65	0.60	0.76	-	
Liabilities						
Member deposits	67,571,812	10,269,207	27,440,540	34,414,875	18,590,720	158,287,154
effective rate %	0.33	1.66	1.73	1.66	-	

18. RISK MANAGEMENT (Cont'd)

2014	Variable	Within 3 months	4 to 12 months	Greater than 1 year	Not rate sensitive	Total
Assets						
Cash and bank	1,517,043	-	-	-	2,555,725	4,072,768
effective rate %	1.40	-	-	-	-	
Loans	72,471,796	3,862,155	9,184,251	57,908,047	-	143,426,249
effective rate %	4.48	3.66	3.93	3.49	-	
Investments	-	5,365,145	4,152,195	400,000	1,689,193	11,606,533
effective rate %	-	1.14	1.29	1.32	-	
Liabilities						
Member deposits	62,264,543	10,377,562	25,022,964	36,087,448	16,371,552	150,124,069
effective rate %	0.44	1.41	1.75	1.89	-	

19. COMMITMENTS

The credit union has an authorized line of credit with Central 1 Credit Union totaling $3,150,000. Security given is a general security agreement covering all assets of the credit union.

Mortgages
Outstanding commitments for future advances on mortgages are $1,468,890 (2014 - $706,980).

Syndication Loans
Outstanding commitments for future advances on syndicated loans are $Nil (2014 - $1,541,720)

Credit Lines
Unused lines of credit available to members are $32,562,619 (2014 - $29,700,834).

Contract Commitments
The credit union's obligations under operating leases for its premises, banking system maintenance and other contracts over the next five years are as follows:

2016 - $476,794   2017 - $318,620   2018 - $220,961   2019 - $36,364   2020 - $28,363

The credit union has pledged to contribute $30,000 annually to the Ontario credit union marketing campaign, which will be paid annually from 2014 to 2018. The credit union has the discretion to withdraw this pledge at any time.