Annual Report

CREDIT UNION
HAMILTON SOUND

2016

CREDIT UNION
HAMILTON SOUND

26th ANNUAL GENERAL MEETING

Will be held in Carmanville at the Carmanville Recreation Centre
Thursday, April 27, 2017 at 7:00 PM

A warm welcome is extended to our valued customer/owners & the general public.

Refreshment will be served and Door Prizes awarded.

HAMILTON SOUND CREDIT UNION
Celebrating 26 Years serving Newfoundland and Labrador

Thanks to all for your confidence and trust.

CREDIT UNION
HAMILTON SOUND

MISSION

Provide quality personal financial services to the people of Newfoundland and Labrador.

VISION

To be the primary provider to the financial stability and education of our customer/owners.

VALUES

Service

Honesty

Integrity

Commitment

Financial Stability

HAMILTON SOUND CREDIT UNION
26TH ANNUAL GENERAL MEETING
APRIL 27, 2017

AGENDA

1. Call to Order 7:00 p.m.
2. Review of Mission, Vision and Values
3. Introduction of Special Guests
4. Minutes of 25th Annual General Meeting
5. Report of the Board of Directors
6. Report of the CEO/Treasurer
7. Review of the Auditors Report and Financial Statements
8. Appointment of Auditors
9. Report of the Nominating Committee
   - Election of Officers
10. New Business
11. Report on Organizations Supported
12. Adjournment
13. Refreshments

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ORGANIZATIONAL STRUCTURE

Board of Directors		President	Frank L. Blake
		Vice-President	Orvin Roberts
		Secretary	Audrey Whiteway
		CEO/Treasurer	Dan Honnor
		Director	Jim Crewe
		Director	Ralph Guy
		Director	Pat Williams
		Director	Watson Mouland
		Director	Lindy Vincent
		Director	Gerald McKenna
Staff		Operations Manager	Dion Jackson
		Compliance Officer	Claudine Mouland
	Carmanville	Branch Manager	Tina Hodder
		Financial Services Officer	Ruth Stratton
		Financial Services Officer	Janine Faulkner
		Sr. Financial Services Rep	Sally Mouland
		Financial Services Rep	Michelle Worrell
		Part-Time FSR	Margaret Cromwell
	Triton	Branch Manager	Kelly Vincent
		Financial Services Officer	Heidi Roberts
		Financial Service Rep.	Angela Critch
		Sr. Financial Service Rep.	Brenda Winsor
		Financial Service Rep.	Renee Roberts
		Financial Service Rep.	Sandy Winsor
	Gander	Branch Manager	Cindy Collins
		Financial Services Officer	Florence Cluney
		Financial Service Officer	Dale Walker
		Financial Service Rep.	Cathy Maloney
		Financial Service Rep.	Cherie Mercer
		Part-Time FSR	Maxine Wheeler

MINUTES
25^{TH} ANNUAL GENERAL MEETING – APRIL 14^{TH}, 2016

ITEM NUMBER	DISCUSSION

1.0 **<u>Call to Order</u>**

Frank Blake, President called the meeting to order at 7:05 P.M. at the Brian Peckford Elementary School in Triton.

Forty eight (48) people attended the meeting.

Mr. Blake welcomed everyone to our 25th Annual General Meeting and introduced the Board of Directors and welcomed guests, Brendan Doyle from CUDGC and Jason Roberts, Mayor of Triton.

Mr. Blake expressed regrets from Jim Crewe, who was unable to attend the meeting.

2.0 **<u>Mission, Vision and Values</u>**

Mr. Blake called attention to the Mission, Vision and Values.

3.0 **<u>Adoption of Agenda</u>**

Frank asked for a motion for the adoption of the agenda of April 14th, 2016.

MOTION 16/04/14-01: to adopt the agenda of April 14th, 2016.

MOVED BY: Pat Williams
SECONDED BY: Jason Roberts
MOTION CARRIED

Frank also asked for a motion to accept the Minutes of April 16th, 2015.

MOTION 16/04/14-02: to accept Minutes of April 16th, 2015, as circulated.

MOVED BY: Jason Roberts
SECONDED BY: Ann Blake
MOTION CARRIED

MINUTES
25TH ANNUAL GENERAL MEETING – APRIL 14TH, 2016

4.0 **<u>Report of the Board of Directors</u>**

Presented by Frank L. Blake

Mr. Blake was pleased to report that 2015 was once again, a successful year.

Our Credit Union experienced a year of solid growth, at about 3% in 2015. This success was supplemented by another year of positive earnings.

Our balance sheet is strong. Therefore, our Credit Union continues to be an intricate member of the communities it serves through fundraising, personal involvement of staff and through direct funding. Some of the organizations supported were the Kids Eat Smart program, local organized hockey associations and community improvement programs. We are determined to be more than just a financial institution as we continue to be community members providing support where it is needed.

In 2015, the Board of Directors of the Hamilton Sound Credit Union consisted of nine (9) members, representing the Province of Newfoundland and Labrador. We are pleased to report that directors accepted their roles and responsibilities and applied their many years of experience when making decisions that should benefit our credit union for many years to come. The Board will continue its commitment to represent the membership in a dignified, professional and compassionate manner.

On behalf of the Board we offer our sincere appreciation for your continued support in keeping the Credit Union strong. We hope that the Hamilton Sound Credit Union will continue to meet or exceed your needs in the future. We would also like to extend a warm thank-you to all of the new member/owners that have joined our Credit Union family over the past year.

At this time our Chairperson offered a moment of silence for our member/owners who passed away in 2015.

In closing, Mr. Blake offered his personal appreciation to the Board of Directors and Staff for a job well done.

This report is respectfully submitted on behalf of the Board.

Frank then introduced Brendan Doyle to speak. Brendan introduced himself as a board member of the Credit Union Deposit Guarantee Corporation and relayed greetings from the honorable Minister and CUDGC.

Credit unions, as a cooperative institution have unique features and a business model that is provincially regulated by CUDGC, ensuring compliance of the act and stabilization of the credit union system. Through CUDGC the province insures deposits for up to $250,000 per type of account, amongst the highest in Canada. He further stated that we are in a year of adjustment in Newfoundland and Labrador with oil production, yet all credits unions in Newfoundland witnessed growth and profit with the exception of one. He maintained that the Credit Union system in Newfoundland remains strong, challenged but strong. Our message is to have a serious look at what we are doing and what is going on in Newfoundland and move forward. The Credit Unions grew to $1.17 billion in assets in 2015, doubling in the last 6 years. Challenges, yes we will encounter, but it is challenges that we can meet. In closing he thanked the Hamilton Sound Credit Union for the invitation and thanks to staff and board for all the hard work and commitment to Credit Union principles.

Frank then welcomed Jason Roberts, Mayor of Triton and asked him to come forward and say a few words.

Jason Roberts welcomed everyone to the meeting and expressed his appreciation for the HSCU providing such a valuable service to the area. Jason commented "Keep our membership here and keep it local". We may face rough times with new budget but hang in there and things should get better. He ended by thanking everyone for coming and wished everyone a good night.

5.0 Report of the CEO/Treasurer

Presented by Dan Honnor

Mr. Honnor welcomed everyone to the meeting and thanked them for the tremendous support throughout the year.

Reporting to you on last year's progress is once again a very pleasant task. Our credit union continued to grow in 2015 and experienced a much stronger year, financially. Though we continue to be burdened by a substantial number of member bankruptcies, business remained strong in 2015. We now provide service to over 4,100 member/owners and administer $60 million in assets, over $14 million through our partner, League Savings and Mortgage.

MINUTES
25TH ANNUAL GENERAL MEETING – APRIL 14TH, 2016

The past year saw a vast improvement to earnings from 2014. As everyone is aware, the local, regional, national and global economies are all functioning in challenging times. Our continued success must be attributed to extensive planning and sound management; combined with the support of everyone affiliated with our credit union.

As we face unprecedented levels of personal financial adversity, your credit union continues to work hard by providing exceptional service, with a human hand to find solutions.

In closing, our CEO thanked the Board of Directors for their guidance and support during 2015, as well as Hamilton sound Credit Union Employees for their commitment in providing quality service to the people of Newfoundland and Labrador. He also thanked our members/owners for their continued support, as they are critical to our success.

Dan then introduced Dion Jackson, Operations Manager.

Dion Jackson offered greetings to everyone in attendance and extended a warm welcome on behalf of the staff of our Triton, Carmanville, and Gander branches.
As just indicated by Dan, 2015 was another good year for HSCU. This makes 12 consecutive years of positive results for your credit union. These results would not be possible without the continuous support of our members. There is no doubt that 2015 was a difficult year with the downturn in the economy (oil industry) and the massive layoffs from Alberta. HSCU were not immune to these events and we have seen higher than normal losses and bankruptcies because of this downturn. In spite of this HSCU was still able to have a successful year.

In 2015 HSCU made 3 new services available to our members

- Mobile Banking – HSCU app downloaded on cell phone.
- Deposit Anywhere – Taking picture of cheque with cellphone for deposit.
- Interac Flash – No pin required for small transactions just hold card directly over interact terminal.

In closing Dion thanked Dan and the board for their support in 2015, and last but not least he thanked all staff for their hard work and dedication in the past year.

6.0 **Review of the Auditor's Report and Financial Statements**

Presented by Dan Honnor

Mr. Honnor presented the Financial Statements, explained the highlights of the report and invited any comments or questions. Dan asked everyone to look on page 13 and page 15 of the AGM booklet focusing on the Auditors opinion of a clean audit and the comprehension income for 2014- $65,180 compared to 2015- $162,281 in 2015, all despite a challenging economy.

MOTION 16/04/14-03: to accept the Auditor's Report and financial statements, as presented.

MOVED BY: Aida Williams
SECONDED BY: Jason Roberts
MOTION CARRIED

Appointment of Auditors

Our CEO recommended that we retain the services of Byron Smith, Chartered Accountant for the year 2016.

MOTION 16/04/14-04: to retain Byron Smith as auditor, to the year ending December 31, 2016.

MOVED BY: Dion Jackson
SECONDED BY: Gerald Mckenna
MOTION CARRIED

8.0 Report of the Nominating Committee

Presented by Dan Honnor

Mr.Doyle was asked to run the elections for the 3 directors.

Jason Roberts nominated by Edmund Fudge and seconded by Vern Burton. Nominations ceased and Jason Roberts declined.

The three (3) directors nominated for re-election this year – Audrey Whiteway, Frank Blake , James Crewe.
All three were nominated by Acclamation.

9.0 New Business

Mr. Blake provided an invitation for anyone wishing to discuss new business.

There was none forthcoming.

He directed everyone to back of AGM booklet where a list of organizations supported by the Credit Union was located.

10.0 Adjournment

MOTION 16/04/14-05: to adjourn.

MOVED BY: Jason Roberts
Meeting adjourned at 7:45 p.m.

Dated this 14th, day of April, 2016.

President: ____________________ Secretary: ____________________

REPORT OF THE BOARD OF DIRECTORS

The Board of Hamilton Sound Credit Union is pleased to report that 2016 was once again, a successful year. Our credit union experienced a year of continued growth, at about 1% in 2016. This success was supplemented by another year of positive earnings.

Our Balance Sheet is strong. Therefore, our Credit Union continues to be an intricate member of the communities it serves through fundraising, personal involvement of staff and through direct funding. Some of the organizations supported were the Kids Eat Smart program, local organized hockey associations and community improvement programs. We are determined to be more than just a financial institution as we continue to be community members providing support where it is needed.

In 2016, the Board of Directors of the Hamilton Sound Credit Union consisted of nine (9) members, representing the province of Newfoundland and Labrador. We are pleased to report that directors accepted their roles and responsibilities and applied their many years of experience when making decisions that should benefit our credit union for many years to come. The Board of Directors will continue its commitment to represent the membership in a dignified, professional and compassionate manner.

On behalf of the Board we offer our sincere appreciation for your continued support in keeping the Credit Union strong. We hope that Hamilton Sound Credit Union will continue to meet or exceed your needs in the future. We would also like to extend a warm thank-you to all of the new member/owners that have joined our Credit Union family over the past year.

I offer my personal appreciation to the Board of Directors, CEO and Staff for a job well done.

Respectfully submitted on behalf of the Board of Directors

Frank L. Blake

Frank L. Blake,
President

REPORT OF THE CEO/TREASURER

Hamilton Sound Credit Union continues to focus on the people of Newfoundland and Labrador and their financial success.

Our credit union had modest growth in 2016 and experienced a lower income, financially. We continue to be burdened by a substantial number of member bankruptcies, which are compound by increased taxation and unemployment. We currently provide service to almost 4,100 member/owners and administer $60 million in assets, over $15 million through our partner, League Savings and Mortgage.

The past year saw a deterioration in earnings as compared to 2015. As everyone is aware, the local, regional, national and global economies are all functioning in challenging times. However, our continued success must be attributed to extensive planning and sound management; combined with the support of everyone affiliated with our credit union.

As we face unprecedented levels of personal financial adversity, your credit union continues to work hard by providing exceptional service, with a human hand to find solutions

I would like to thank our Board of Directors for their guidance and support during 2016, as well as Hamilton Sound Credit Union Employees for their commitment in providing quality service to the people of Newfoundland and Labrador. I would also like to thank our member/owners for their continued support, as they are critical to our success.

Respectfully submitted,

Dan Honnor,
CEO/Treasurer

HAMILTON SOUND CREDIT UNION LIMITED
FINANCIAL STATEMENTS
December 31, 2016

INDEPENDENT AUDITOR'S REPORT

To the Members of:
Hamilton Sound Credit Union Limited

Report on the Financial Statements

I have audited the accompanying financial statements of the Hamilton Sound Credit Union Limited, which comprise the statement of financial position as at December 31, 2016, and the statements of comprehensive income, statement of changes in equity and statement of 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.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit includes 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 purposes 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Hamilton Sound Credit Union Limited as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Spaniard's Bay, NL
February 23, 2017

CHARTERED PROFESSIONAL ACCOUNTANT

Hamilton Sound Credit Union Limited
Statement of Financial Position

As at December 31,	2016	2015
Assets		
Cash	$ 774,631	$ 902,184
Deposits - interest bearing and liquidity accounts (Note 4)	4,217,743	4,303,723
Investments (Note 4)	1,831,796	2,087,746
Loans and mortgages receivable (Note 6)	38,765,642	37,826,385
Current income taxes receivable	20,673	
Other assets (Note 8)	73,614	77,002
Property, plant and equipment (Note 7)	1,345,126	1,384,885
	$ 47,029,225	$ 46,581,925
Liabilities		
Accounts payable and accrued liabilities	$ 65,387	$ 95,582
Members deposits (Note 9)	44,823,787	44,372,863
Income taxes payable		15,768
Future income taxes payable	15,850	13,402
	44,905,024	44,497,615
Member Equity		
Retained Earnings	2,124,201	2,084,310
	$ 47,029,225	$ 46,581,925

Approved by the Board:

Frank L. Blake Director Audrey Whitney Director

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

Hamilton Sound Credit Union Limited
Statement of Comprehensive Income

For the Year Ended December 31,	2016	2015
Financial Revenue		
Interest	$ 2,821,747	$ 2,792,949
Investment income	91,270	98,686
	2,913,017	2,891,635
Cost of Funds		
Interest on members deposits	(767,977)	(817,771)
Financial margin	2,145,040	2,073,864
Other income		
Commissions	299,979	370,867
Other (Note 14)	472,671	492,312
	2,917,690	2,937,043
Operating Expenses		
Member security (Note 15)	406,574	345,265
General business (Note 16)	1,233,312	1,190,549
Personnel	1,232,609	1,213,495
	2,872,495	2,749,309
Net income before income taxes	45,195	187,734
Income taxes		
- future (recovery)	2,448	(237)
- current	2,856	25,690
Net income for the year before other items	39,891	162,281
Other items	NIL	NIL
Total Comprehensive Income	$ 39,891	$ 162,281

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

Hamilton Sound Credit Union Limited
Statement of Changes in Members Equity

For the Year Ended December 31,	2016	2015
Retained earnings, beginning of year	$ 2,084,310	$ 1,922,029
Total Comprehensive Income	39,891	162,281
Retained earnings, end of year	$ 2,124,201	$ 2,084,310

Retained earnings is comprised of the following:

Retained earnings from operations	$ 2,095,201	$ 2,055,310
Stock dividend	29,000	29,000
	$ 2,124,201	$ 2,084,310

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

Hamilton Sound Credit Union Limited
Statement of Cash Flows

For the Year Ended December 31,	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating activities		
Net income	$ 39,891	$ 162,281
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization	62,721	98,907
	102,612	261,188
Change in assets and liabilities:		
Decrease in accounts payable and accrued liabilities	(30,195)	(12,658)
Increase (decrease) in income taxes payable	(15,768)	15,768
Future income taxes receivable	2,448	(235)
Current income taxes receivable	(20,673)	21,643
Other assets	3,388	(22,748)
Net cash provided by operating activities	41,812	262,958
Cash Flows from Financing Activities		
Increase in member deposits	450,924	1,164,292
Cash Flows from Investing Activities		
Decrease (increase) in investments	255,950	(1,521,486)
Increase in loans and mortgages receivable	(939,257)	(2,092,099)
Increase in capital assets	(22,962)	(56,634)
Net cash used in investing activities	(706,269)	(3,670,219)
Decrease in cash	(213,533)	(2,242,969)
Cash, beginning of year	5,205,907	7,448,876
Cash, end of year	$ 4,992,374	$ 5,205,907
Cash balances consist of:		
Cash and cash equivalents	$ 774,631	$ 902,184
Cash - required liquidity	4,217,743	4,303,723
	$ 4,992,374	$ 5,205,907

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

1. Nature of Operations and Basis of Presentation

Reporting Entity

The Credit Union is incorporated under the laws of the province of Newfoundland and Labrador and is subject to the provisions of the Credit Union Act\Regulations of the province. The Credit Union is a member of Atlantic Central. The Credit Union operates as one operating segment in the loans and deposit taking industry in Newfoundland and Labrador. Products and services offered to its members include mortgages, personal and commercial loans, chequing and savings accounts, term deposits, RRSP's, RRIF's, mutual funds, automated banking machines (ABM's), debit and credit cards, internet and mobile banking. The Credit Union's head office is located at Carmenville, NL.

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 available-for-sale financial assets and derivative financial instruments measured at fair value.

The financial statements for the year ended December 31, 2016 were authorized for issue by the Credit Union's Board of Directors on February 23, 2017.

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 2.

2. Significant Accounting Policies

Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits with Atlantic Central, other short-terms highly liquid investments with original maturities of three months or less; and for the purpose of the statement of cash flows, bank overdrafts that are repayable on demand.

Cash and cash equivalents are classified as loans and receivables and are carried at amortized cost, which is equivalent to fair value.

Investments

Central Deposits

These deposit instruments are classified as loans and receivables and are initially measured at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently they are carried at amortized cost, which approximates fair value.

Equity Instruments

These instruments are classified as available-for-sale and are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently they are carried at fair value, unless they do not have a quoted market price in an active market and fair value is not reliably determinable in which case they are carried at cost.

2. Significant Accounting Policies (Continued)

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.

Where there is a significant or prolonged decline in the fair value of an equity instrument (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously recognized in other comprehensive income, is recognized in net income.

Purchases and sales of equity instruments are recognized on settlement date with any change in fair value between trade date and settlement date being recognized in accumulated other comprehensive income.

On sale, the amount held in accumulated other comprehensive income associated with that instrument is removed from equity and recognized in net income.

Derivative Financial Instruments

Hedges

The Credit Union, in accordance with its risk management strategies, may enter into various derivative financial instruments to protect itself against the risk of fluctuations in interest rates.

The Credit Union manages interest rate risk through interest rate swaps. These derivatives are carried at fair value and are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value, in both cases shown on the Statement of Financial Position.

Hedge accounting is applied to financial assets and financial liabilities only where all of the following criteria are met:

- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Credit Union's risk management objective and strategy for undertaking the hedge;
- For cash flow hedges, the hedged item in a forecast transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss;
- The effectiveness of the hedge can be reliably measured; and
- The hedge is expected to be highly effective at inception and remains highly effective on each date it is tested. The Credit Union has chosen to test the effectiveness of its hedges on a quarterly basis.

The swap contracts can be designated as fair value hedge instruments or cash flow hedge instruments. The Credit Union has not entered into any fair value hedges at this time.

Cash flow hedges modify exposure to variability in cash flows for variable rate interest bearing instruments or the forecasted assurance of fixed rate liabilities. The Credit Union's cash flow hedges are primarily hedges of floating rate deposits as well as commercial and personal loans.

For cash flow hedges that meet the hedging documentation criteria, gains and losses resulting from changes in the fair value of the effective portion of the derivative instrument are recorded in other comprehensive income until the hedged item is recognized in income, at which time such change is recognized as interest income. The ineffective portion is recognized immediately in income as other income.

2. Significant Accounting Policies (Continued)

If the Credit Union closes out its hedge position early, the cumulative gains and losses recognized in other comprehensive income are frozen and reclassified from the cash flow hedge reserve to profit or loss using the effective interest method. The ineffective portion of gains and losses on derivatives used to manage cash flow interest rate risk are recognized in net income within interest expense or interest revenue. The Credit Union did not engage in any material derivative financial instruments.

Other Non-Hedge Derivatives

The Credit Union may designate certain financial assets upon initial recognition as at fair value through profit or loss (fair value option). Financial instruments included in this category are the embedded derivatives and derivatives related to index linked term deposits and interest rate swaps not designated as hedging instruments.

These instruments are measured at fair value, both initially and subsequently. The related transaction costs are expensed. Gains and losses arising from changes in fair value of these instruments are recorded in net income.

Member Loans

All member loans are non-derivative 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 and inclusive of transaction costs incurred.

Member loans are subsequently measured at amortized cost, using the effective interest rate method, less any impairment (losses).

Loans to members are reported at their recoverable amount representing the aggregate amount of principal, less any allowance or provision for impaired loans plus accrued interest. Interest is accounted for on the accrual basis for all loans.

If there is objective evidence that an impairment loss on member loans carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the loans carrying amount and the present value of expected cash flows discounted at the loans original effective interest rate, short-term balances are not discounted.

The Credit Union first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant.

If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. The expected future cash outflows for a group of financial assets with similar credit risk characteristics are estimated based on historical loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in net income.

2. Significant Accounting Policies (Continued)

Bad Debts Written Off

Bad debts are written off from time to time as determined by management and approved by the Board of Directors when it is reasonable to expect that the recovery of the debt is unlikely. Bad debts are written off against the provisions for impairment, if a provision for impairment had previously been recognized. If no provision had been recognized, the write offs are recognized as expenses in net income.

Property, Plant and Equipment

Property, plant and equipment is initially recorded at cost. Amortization is calculated as set out below, based on the estimated useful lives of the assets. No amortization is taken on assets purchased that have not been put into use during the year.

Buildings	- straight line over 25 years
Leasehold improvements	- straight line over 5 years
Furniture and equipment	- straight line over 5 years
Pavement	- straight line over 12 years
Computer equipment	- straight line over 3 years

Amortization methods, useful lives and residual values are reviewed annually and adjusted if necessary.

Impairment of Non-Financial Assets

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows.

Impairment charges are included in net income, except to the extent they reverse gains previously recognized in other comprehensive income.

2. Significant Accounting Policies (Continued)

Income Taxes

Income tax expense comprises current and future tax. Current tax and future 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. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Future tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit or loss.

Recognition of future tax assets for unused tax (losses), tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available which allow the future tax asset to be utilized. Future 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 future 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.

Accounts Payable and Other Payables

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 carried at amortized cost using the effective interest rate method.

Provisions

Provisions are recognized for liabilities of uncertain timing or amounts 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.

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.

Shares that contain redemption features subject to the Credit Union maintaining adequate regulatory capital are accounted for using the partial treatment requirements of IFRIC 2 *Members' Shares in Co-operative Entities and Similar Instruments.*

2. Significant Accounting Policies (Continued)

Patronage Distributions

Patronage distributions are recognized in net income when circumstances indicate the Credit Union has a constructive obligation it has little or no discretion to avoid, and it can make a reasonable estimate of the amount required to settle the obligation.

Revenue Recognition

Interest income is accrued on a daily basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition. Dividend income is recognized when the right to receive payment is established. Dividends are included in interest income on the statement of comprehensive income. Other income is recognized over the period the services are performed.

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 day. 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 monetary available-for-sale financial assets are treated as a separate component of the change in fair value and recognized in net income. Exchange gains and losses on non-monetary available-for-sale financial assets form part of the overall gain or loss recognized in respect of the financial instrument.

Non-monetary assets and liabilities that are measured at historical cost are translated into Canadian dollars by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated. Non-monetary assets and liabilities that are measured at fair value or a revalued amount are translated into Canadian dollars by using the exchange rate in effect at the date the value is determined and the related translation differences are recognized in net income or other comprehensive income consistent with where the gain or loss on the underlying non-monetary asset or liability has been recognized.

Standards, Amendments and Interpretations Not Yet Effective

The following new standards, amendments and interpretations, which have not been applied in these financial statements, that will or may have an effect on the Credit Unions future financial statements are:

- IFRS 9 *Financial Instruments* is part of the IASB's wider project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 retains but 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 for all financial assets not at FVTPL (fair value through profit or loss), which results in credit losses being recognized regardless of whether a loss event has occured. This "Expected Credit Loss" model replaces the current "incurred loss" model of IAS 39. The Expected Credit Loss model has three stages: Stage 1) on initial recognition, 12 month expected credit losses are recognized in profit and a loss allowances is established; Stage 2) if the credit risk increases significantly and the resulting credit quality is not considered to be low credit risk, full lifetime expected credit losses are recognized; and Stage 3) When the credit risk of a financial asset increases to the point it is considered credit-impaired, interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount. Lifetime expected credit losses are still recognized on these financial assets.

The standard 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.

- IAS 7, *Statement of Cash Flows*, was amended by ISAB in January 2016 to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendment is effective for annual periods beginning on or after January 1, 2017. The Credit Union is assessing the impact of IAS 7 but does not anticipate a material impact.

- IAS 12, *Recognition of Deferred Tax Assets for Unrealized Losses*, was amended by ISAB in January 2016 to revise the methodology in assessing the deductibility of temporary timing differences. The amendment is effective for annual periods beginning on or after January 1, 2017. The Credit Union is assessing the impact of IAS 12 but does not anticipate a material impact.

- IFRS 16, *Leases*, was released by IASB in January 2016 to set out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single leasee accounting model. Applying that model, a leasee is required to recognize: assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 is effective January 1, 2019. The Credit Union is in the process of evaluating the impact of the new standard.

Accounting Estimates and Judgements

Use of Estimates

The Credit Union makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgements 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 significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

2. Significant Accounting Policies (Continued)

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.

The methods and assumptions applied, and the valuation techniques used, for financial instruments that are not quoted in an active market are disclosed on Note 4.

Member Loan Loss Provision

In determining whether an impairment loss should be recorded in the statement of comprehensive income the Credit Union makes judgement 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. Further details on the estimates used to determine the allowance for impaired loans collective provision are provided in Note 6.

Income Taxes

The Credit Union periodically assesses its liabilities and contingencies related to income taxes for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the Credit Union records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

3. Cash and Cash Equivalents

The Credit Union's cash and current accounts are held with Atlantic Central. The average yield on the accounts at December 31, 2016 is 0.8 %.

4. Investments

The following tables provide information on investments by type of security and issuer. The maximum exposure to credit risk would be the fair value as detailed below.

Deposits - interest bearing and liquidity accounts

	2016	**2015**
Atlantic Central Liquidity reserve deposits	$ 4,217,743	$ 4,303,723

The Credit Union must maintain liquidity reserves with Atlantic Central at 6% of total deposits in, and borrowings of, the Credit Union. Note 13 provides the Credit Union's position in this regard. The deposits can be withdrawn only of there is a sufficient reduction in the Credit Union's total deposit and borrowings or upon withdrawal of membership from Atlantic Central. The liquidity reserves are due within one year. At maturity, these deposits are reinvested at market rates for various terms.

4. Investments (Continued)

Discount deposits at Atlantic Central are due within one year. The carrying amounts for deposits at Atlantic Central approximate fair value due to having similar characteristics as cash and cash equivalents.

Equity Instruments	**2016**	**2015**
Atlantic Central Common Shares	$ 439,500	$ 415,880
Atlantic Central Class B	63,000	63,000
Atlantic Central NL Shares	29,000	29,000
Concentra Shares	10	10
League Savings and Mortgage Company Shares	61,250	61,250
League Data Company Share	14,120	14,120
Credential Preferred Shares	1,000,000	1,000,000
Total Equity Instruments	1,606,880	1,583,260
Investment in mortgages under administration		
Accrued Interest	7,500	3,900
Concentra Mortgage Pool	217,416	500,586
Total investment in mortgages	224,916	504,486
Total investments	$ 1,831,796	$ 2,087,746

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

Atlantic Central shares are subject to an annual rebalancing mechanism and are issued and redeemable at par value. There is no separately quoted market value for these shares however, fair value is determined to be equivalent to the par value due to the fact transactions occur at par value on a regular and recurring basis.

League Savings and Mortgage Company is a member of the Atlantic Central Group. There is no separately quoted market value for these shares and the fair value could not be measured reliably. Therefore, they are recorded at cost.

League Data Company is owned by the Credit Union's of Atlantic Canada.

The Credit Union is not intending to dispose of any Atlantic Central shares as the services supplied by Atlantic Central are relevant to the day to day activities for the Credit Union.

Dividends on these shares are at the discretion of the Board of Directors of Atlantic Central.

The Credit Union has invested in a portfolio of residential mortgages consisting of principle and any interest owing on loans and any premium/ discount included in the Concentra Financial Loan Pool as of the Investment date. The Credit Union is entitled to receive its share percentage of the Concentra Financial return and bear its unit share percentage of losses and expenses in the Pool.

5. Derivative Financial Instruments

The Credit Union has not entered into any derivate financial instruments.

6. Loans and Mortgages Receivable

	2016	2015
Current loans	$ 31,908,339	$ 32,184,762
Current mortgages	6,698,927	5,540,977
Impaired loans and mortgages	554,894	391,394
	39,162,160	38,117,133
Less: allowance for impaired loans	(396,518)	(290,748)
Net loans and mortgages receivable	$ 38,765,642	$ 37,826,385

Current loans include prepaid transaction costs (referral fees) as follows: 2016 - $ 419,440; 2015 - $ 463,112. Transactions costs and included with current loans in accordance with the effective interest rate method.

Total allowance for impaired loan provision comprises solely of individual specific provisions:

	2016	2015
Balance, beginning of the year	$ 290,748	$ 239,068
Loans written off as uncollectible	(187,166)	(184,834)
	103,582	54,234
Additional provision (recovery)	292,936	236,514
Balance, end of year	$ 396,518	$ 290,748

The number of loans outstanding at December 31 has been summarized as follows:

	2016	2015
Current loans	2,987	3,069
Current mortgages	106	81
Impaired loans and mortgages	64	44
	3,157	3,194

Analysis of individual loans that are impaired or potentially impaired based on age of repayments outstanding.

	December 31, 2016		December 31, 2015	
	Carrying Value	Individual Specific Provision	Carrying Value	Individual Specific Provision
Period of deliquency				
Less than 90 days	$ 97,505	$ 40,800	$ 72,850	$ 55,670
Over 90 days	457,389	314,918	318,544	211,427
Total loans in arrears	554,894	355,718	391,394	267,097
Total loans not in arrears	38,607,266	40,800	37,725,739	23,651
Total loans	$ 39,162,160	$ 396,518	$ 38,117,133	$ 290,748

6. Loans and Mortgages Receivable (continued)

Terms and Conditions

Member loans can have either a variable or fixed rate of interest and they mature within five years.

Some variable rate loans are based on a "prime rate" formula. The rate is determined by the type of security offered and the members' credit worthiness.

The interest rate, on fixed rate loans being advanced at December 31, 2016 offered to a member varies with the type of security offered and the member's credit worthiness.

Current mortgages are loans that are secured by residential property and are generally repayable monthly with either blended payments of principal and interest or interest only.

Current loans consist of personal term loans, commercial loans, member overdrafts and lines of credit that are non real estate secured and, as such, have various repayment terms. Some of the current loans are secured by personal property and equipment or investments, and general security agreement or conditional sales contracts.

Average Yields to Maturity

Loans bear interest at both variable and fixed rates with the following average yields at:

	Principal	2016 Yield	Principal	2015 Yield
Variable rate	$ 858,200	4.72%	$ 976,700	5.45%
Fixed rate	38,303,960	6.40%	37,140,433	6.71%
	$ 39,162,160		$ 38,117,133	

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:

	2016	2015
Unsecured loans	$ 6,023,515	$ 6,654,476
Loans secured by cash, member deposits	$ 148,656	$ 166,113
Loans guaranteed by government	$ 150,198	$ 195,358

Fair Value

The estimated fair value of the variable rate loans is assumed to be equal to book value as the interest rates on these loans re-price to market on a periodic basis. The estimated fair value of fixed rate loans is determined by discounting the expected future cash flows at current market rates for products with similar terms and credit risks.

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

6. Loans and Mortgages Receivable (continued)

impairment (losses). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any difference between loss estimates and actual loss experience.

An estimate of the collective provision is based on the period of repayments that are past due.

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.

Hamilton Sound Credit Union Limited
Notes to the Financial Statements

December 31, 2016

7. Property, plant and equipment

	Land	Buildings	Leasehold Improvements	Paving & fence	Furniture and Fixtures	Total
Cost						
Balance on December 31, 2015	$ 47,168	$ 1,480,474		$ 133,861	$ 551,936	$ 2,213,439
Additions				10,505	12,457	22,962
Disposals						
Balance on December 31, 2016	47,168	1,480,474		144,366	564,393	2,236,401
Accumulated Amortization						
Balance on December 31, 2015		241,403		62,540	524,611	828,554
Amortization expense		33,219		9,799	19,703	62,721
Disposals						
Balance on December 31, 2016		274,622		72,339	544,314	891,275
Net Book Value						
December 31, 2015	$ 47,168	$ 1,239,071	$ NIL	$ 71,321	$ 27,325	$ 1,384,885
December 31, 2016	$ 47,168	$ 1,205,852	$ NIL	$ 72,027	$ 20,079	$ 1,345,126

8. Other Assets

	2016	2015
Prepaid expenses	$ 42,842	$ 35,085
Other accounts receivable	30,772	41,917
	$ 73,614	$ 77,002

9. Member Deposits

	2016	2015
Chequing accounts	$ 6,560,364	$ 6,826,747
Savings	14,031,867	13,598,096
R.R.S.P. funds plus accrued interest	11,381,751	11,598,101
Plan 24 accounts	12,266,660	11,759,069
Equity share accounts	408,478	416,403
Special equity share accounts	174,667	174,447
	$ 44,823,787	$ 44,372,863

Terms and Conditions

Chequing deposits are due on demand.

Demand deposits are due on demand and bear interest at various rates. Interest is calculated daily.

Term deposits bear fixed rates of interest for terms of up to five years. Interest can be paid annually, semiannually, monthly or upon maturity.

The registered retirement savings plan (RRSP) accounts can be fixed or variable rates. The fixed rate RRSP's have terms and rates similar to the term deposit accounts described above.

The tax-free savings accounts can be fixed or variable rate with terms and conditions similar to those of the RRSP's described above.

Fair Value

The estimated fair value of the demand deposits and variable rate deposits are assumed to be equal to book value as the interest rates on these loans and deposits re-price to market on a periodic basis. The estimated fair value of fixed rate deposits is determined by discounting the expected future cash flows of these deposits at current market rates for products with similar terms and credit risks.

10. Income Taxes

The components of income tax expense are:

	2016	2015
Income taxes - current	$ 2,856	$ 25,690
Future income taxes -on reversal of timing differences	2,448	(237)
	$ 5,304	$ 25,453

11. Related Party Transactions

Salaries paid to key management personnel having authority and responsibility for planning, directing and controlling the activities of the Credit Union were $ 276,196 (2015 - $ 248,733).

At December 31, 2016, the aggregate value of interest-bearing personal and mortgage loans outstanding to directors, officers and employees totaled $ 1,141,497 (2015 - $ 996,449). These loans and deposits are on the same terms and conditions and have been accorded to all members of the Credit Union. The aggregate value of interest bearing deposits outstanding to directors, officers and employees totaled $ 3,086,089 (2015 - $ 3,480,942).

12. Financial Instrument Classification and Fair Value

The following table represents the carrying amount by classification.

	Available-for-Sale	Fair Value through Profit or Loss	Cash Flow Hedges	Loans and Receivables	Other Financial Liabilities
December 31, 2016					
Cash	$ 2,302,947			$ 2,689,427	
Investments		$ 1,831,796			
Loans to members				38,765,642	
Other assets	94,287				
Member deposits					$ 44,823,787
Members' shares					
Other liabilities					97,005
	$ 2,397,234	$ 1,831,796	$ NIL	$ 41,455,069	$ 44,905,024
December 31, 2015					
Cash	$ 2,543,535			$ 2,662,372	
Investments		$ 2,087,746			
Loans to members				37,826,385	
Other assets	77,002				
Member deposits					$ 44,372,863
Members' shares					
Other Liabilities					124,752
	$ 2,620,537	$ 2,087,746	$ NIL	$ 40,488,757	$ 44,497,615

12. Financial Instrument Classification and Fair Value (Continued)

Capital Adequacy/Capital Management

Pursuant to S.22 of the regulations related to the Credit Union Act, a Credit Union shall maintain a capital adequacy reserve of 5% of total assets consisting of share capital and retained earnings. The minimum retained earnings amount is 3% of total assets. The maximum share capital to be used in the determination of capital adequacy is 2% of total assets. As outlined below, the Credit Union was in compliance with the requirement as at December 31, 2016. During 2011 the Credit Union received a stock dividend in the amount of $ 29,000. This amount is included in retained earnings.

	2016	2015
Required capital		
5% of total assets	$ 2,351,461	$ 2,329,096
Actual capital		
Retained Earnings	2,124,201	2,084,310
Equity shares	408,478	416,403
Special equity shares	174,667	174,447
	2,707,346	2,675,160
Excess capital	$ 355,885	$ 346,064

13. Financial Instrument Risk Management

General Objectives, Policies and Processes

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 key management personnel. The Board of Directors receives quarterly reports from the Credit Union's management through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

Credit Risk

Credit risk is the risk of financial loss to the Credit Union if a counterparty to a financial instrument fails to make payments of interest and principal when due. The Credit Union is exposed to credit risk from claims against a debtor or indirectly from claims against a guarantor of credit obligations.

Risk Management

Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner. To assess credit risk, the Credit Union takes into consideration the member's character, ability to pay, and value of collateral available to secure the loan.

The Credit Union's credit risk management principles are guided by its overall risk management principles. The Board of Directors ensures that management has a framework, policies, processes and procedures in place to manage credit risks and that the overall credit risk policies are complied with, at the business and transaction level.

13. Financial Instrument Risk Management (Continued)

Liquidity Risk

Liquidity risk is the risk that the Credit Union will not be able to meet all cash outflow obligations as they come due. 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.

Risk Measurement

The assessment of the Credit Union's liquidity position reflects management's estimates, assumptions and judgments pertaining to current and prospective firm specific and market conditions and the related behaviour of its members and counterparts.

Objective, Policies and Procedures

The Credit Union's liquidity management framework is designed to ensure that adequate sources of reliable and cost effective cash or its equivalents are continually available to satisfy its current and prospective financial commitments under normal and contemplated stress conditions.

Provisions of the Credit Union Act require the Credit Union to maintain a prudent amount of liquid assets in order to meet member withdrawals. The Credit Union has set a minimum liquidity ratio of 6%.

The Credit Union manages liquidity risk by:
- Continuously monitoring actual daily cash flows and longer term forecasted cash flows;
- Monitoring the maturity profiles of financial assets and liabilities;
- Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities; and
- Monitoring the liquidity ratios monthly.

The Board of Directors receives monthly liquidity reports as well as information regarding cash balances in order for it to monitor the Credit Union's liquidity framework. The Credit Union was in compliance with the liquidity requirements throughout the fiscal year.

Liquidity Requirement

As at December 31, 2016, the position of the Credit Union is as follows:

	Maximum Exposure
Qualifying liquid assets on hand	
Cash	$ 774,631
Liquidity reserve deposit	4,217,743
Other deposits and term deposits maturing within one year	Nil
	4,992,374
Total liquidity requirement	2,689,427
Excess liquidity	$ 2,302,947

The maturities of liabilities are shown below under market risk. The Credit Union has no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business.

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.

13. Financial Instrument Risk Management (Continued)

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: interest rate risk, currency risk, and equity risk.

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's goal is to manage the interest rate risk of the statement of financial position to a target level. The Credit Union continually monitors the effectiveness of its interest rate mitigation activities.

The following schedule shows the Credit Union's sensitivity to interest rate changes. A significant amount of loans and deposits can be settled before maturity on payment of a penalty, but no adjustment has been made for payments that may occur prior to maturity. Amounts that are not interest sensitive have been grouped together regardless of maturity.

Risk Measurement

The Credit Union's position is measured quarterly. Measurement of risk is based on rates charged to members as well as funds transfer pricing rates.

Objectives, Policies and Procedures

The Credit Union's major source of income is financial margin, the difference between interest earned on investments and member loans and interest paid on member deposits. The objective of asset/liability management is to match interest sensitive assets with interest sensitive liabilities as to amount and as to term to their interest rate repricing dates, thus minimizing fluctuations of income during periods of changing interest rates.

Schedules of matching and interest rate vulnerability are regularly prepared and monitored by Credit Union's management.

	Assets	Yield (%)	Liabilities	Cost (%)	Asset / Liability Gap
Maturity dates interest sensitive					
Variable	$ 858,200	4.72	$ 18,732,050	0.45	$ (17,873,850)
0-3 months	2,724,110	2.70	7,438,610	3.16	(4,714,500)
4-6 months	1,280,550	3.46	1,458,940	2.40	(178,390)
7-9 months	1,718,550	3.47	496,350	1.75	1,222,200
1 year	1,256,300	3.08	1,321,710	2.95	(65,410)
2 years	5,528,410	7.56	3,898,070	2.29	1,630,340
3 years	7,427,560	7.76	3,505,190	3.05	3,922,370
4 years	9,631,450	6.92	1,692,390	2.26	7,939,060
5 years	9,923,710	6.31	2,788,970	2.40	7,134,740
> 5 years	4,257,140	7.03			4,257,140
	44,605,980		41,332,280		3,273,700
Non interest sensitive	2,423,245		3,572,744		(1,149,499)
Total	$ 47,029,225		$ 44,905,024		$ 2,124,201

13. Financial Instrument Risk Management (continued)

Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. The Credit Union utilizes interest rate swaps in managing this rate gap. One of the roles of a Credit Union is to intermediate between the expectations of borrowers and depositors.

If applying a simple interest calculation to the above schedule, with the exclusion of any assumptions regarding shock reduction adjustments, the effect of the Credit Union's risk resulting from an increase in interest rates of 1% on variable interest sensitive instruments could result in a decrease to net income of approximately $175,500 while a decrease of interest rates of 1% could result in a increase to net income of approximately $ 71,750.

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.

14. Other Income

	2016	2015
Miscellaneous	$ 31,071	$ 12,097
Referral fees	14,101	24,633
Service charges and fees	427,499	455,582
	$ 472,671	$ 492,312

15. Member Security

	2016	2015
Bad debt expense	$ 292,936	$ 236,515
Asset and liability management fees	5,575	5,400
Credit Union Deposit Guarantee Corporation assessment	77,763	75,932
Insurance	30,300	27,418
	$ 406,574	$ 345,265

16. General Business

	2016	2015
Advertising and promotion	$ 61,069	$ 53,959
Amortization	62,721	98,907
Credit Bureau fees	16,400	19,379
Dues and assessments - Atlantic Central and others	55,939	58,253
Dealer commissions	298,462	295,324
EDP fees	257,318	244,458
EDP system maintenance	41,582	23,573
Occupancy costs	133,562	116,013
Office expenses	34,634	27,156
Other	23,461	23,570
Professional fees	51,149	34,576
RRSP administration fee	4,383	3,850
Service charges	50,716	51,670
Telephone	30,178	31,664
Travel	78,813	74,668
Transportation - security	32,925	33,529
	$ 1,233,312	$ 1,190,549

17. Short-term Borrowings

The Credit Union has available short-term borrowings of $ 1,150,000 bearing interest at a rate of 2.2%, all of which remained unused at year-end. These borrowings are secured by a general assignment of book debts.

18. Comparative amounts

Certain comparative amounts have been reclassified to conform with the financial statement presentation adopted for the current year.

19. Commitments

Member loans

The Credit Union has the following commitments to its members at the year-end date on account of loans, unused lines of credit and letters of credit:

	2016	2015
Unadvanced loans	$ 188,330	$ 55,800
Unissued lines of credit	$ 2,108,136	$ 1,943,626
Letters of credit	$ NIL	$ NIL

REPORT OF THE NOMINATING COMMITTEE

There are three (3) directors up for re-election this year. The following members have accepted nominations for election or re-election to the Board of Directors of the Hamilton Sound Credit Union Limited. Terms will all be three (3) years.

Directors

Gerald McKenna (R)
- representing Fogo Island area

Watson Mouland (R)
- representing Gander Bay NL area

Lindy Vincent (R)
- representing Triton NL area

Nominating Committee

Audrey Whiteway
Dan Honnor
Jim Crewe

ORGANIZATIONS SUPPORTED

- Kids Eat Smart Foundation – Breakfast Programs
    - Gill Academy – Musgrave Harbour
    - Pheonix Academny – Carmanville
    - Riverwood Academy – Wing's Point (Gander Bay)
    - Green Bay South Academy – Robert's Arm
    - St. Paul's Intermediate (Gander)
    - Gander Academy
- The Pottle Centre
- Triton Royal Canadian Sea Cadets
- Ronald McDonald House
- Hockey Teams Gander and Triton
- Gander Community Tennis
- Festivals in Joe Batt's Arm, Triton, Carmanville, Musgrave Harbour and Philley's Island
- Multiple Safe Grads at local schools
- Multiple community fire departments
- Student achievement awards – local schools
- Ride for Dad
- Carmanville Food Drive
- Gander Collegiate

Direct Staff Support - SPCA and Ronald McDonald House
Carmanville Christmas Parade
Gander Christmas Parade (1st Place)

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NOTES

Carmanville Branch
PO Box 272, Highway 330
Carmanville, NL A0G 1N0
Tel (709) 534-2224
Fax (709) 534-2227

Triton Branch
PO Box 254, 131 Main Street
Triton, NL A0J 1V0
Tel (709) 263-7220
Fax (709) 263-7229

Gander Branch
PO Box 388, 80 Roe Avenue
Gander, NL A1V 1W8
Tel (709) 651-0500
Fax (709) 651-0505

Toll Free 1-877-651-8785

www.hscunl.ca