



# 2014 Annual **REPORT**



**member and community focused...**



# **24<sup>th</sup> ANNUAL GENERAL MEETING**

Will be held in Musgrave Harbour at the Spindrift Hotel  
Thursday April 16, 2015 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 24 Years serving Newfoundland and Labrador

Thanks to all for your confidence and trust.



## **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  
24<sup>TH</sup> ANNUAL GENERAL MEETING  
APRIL 16<sup>TH</sup>, 2015**

**AGENDA**

1. Call to Order 7:00 p.m.
2. Review of Mission, Vision and Values
3. Introduction of Special Guests
4. Minutes of 23<sup>rd</sup> 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
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 Services Officer	Katie Parrott
Jr. Financial Service Officer	Dale Walker
Financial Service Rep.	Cathy Maloney
Financial Service Rep.	Joan Keefe

MINUTES  
HAMILTON SOUND CREDIT UNION  
23<sup>RD</sup> ANNUAL GENERAL MEETING  
April 3<sup>rd</sup>, 2014

ITEM NUMBER	DISCUSSION
<b>1.0</b>	<p><b><u>Call to Order</u></b></p> <p>Frank Blake, President called the meeting to order at 7:00 P.M. at the Brian Peckford Elementary School in Triton.</p> <p>Forty Nine (49) people attended the meeting.</p> <p>Mr. Blake welcomed everyone to our 23<sup>rd</sup> Annual General Meeting.</p>
<b>2.0</b>	<p><b><u>Mission, Vision and Values</u></b></p> <p>Our President called attention to the Mission, Vision and Values.</p>
<b>3.0</b>	<p><b><u>Adoption of Agenda</u></b></p> <p>Frank asked for the adoption of the agenda of April 3<sup>rd</sup>, 2014 and the minutes of April 24<sup>th</sup>, 2013.</p> <p><b>MOTION 14/04/03-01:</b> to adopt the agenda of April 3<sup>rd</sup>, 2014.</p> <p><b>MOVED BY:</b> Pat Williams  <b>SECONDED BY:</b> Lindy Vincent  <b>MOTION CARRIED</b></p> <p><b>MOTION 14/04/03-02:</b> to accept Minutes of April 24, 2013, as circulated.</p> <p><b>MOVED BY:</b> Orvin Roberts  <b>SECONDED BY:</b> Gerald Mckenna  <b>MOTION CARRIED</b></p>

MINUTES  
HAMILTON SOUND CREDIT UNION  
23<sup>RD</sup> ANNUAL GENERAL MEETING  
April 3<sup>rd</sup>, 2014

<b>4.0</b>	<p><b><u>Report of the Board of Directors</u></b></p> <p><b>Presented by Frank L. Blake</b></p> <p>Mr. Blake was pleased to report that 2013 was once again, a successful year.</p> <p>Our Credit Union experienced a year of solid growth of over 7% in 2013, capping off the last 5 years at 67% and 10 years at 175%. This success was supplemented by another year of positive earnings.</p> <p>Our balance sheet is strong and our income is stable. Therefore, our Credit Union continues to be involved in the communities it serves through fundraising, personal involvement of staff and through direct funding. Some of the organizations supported were the DARE program, School Breakfast Programs, and organized hockey associations. We are determined to be more than just a financial institution as we continue to be community members providing support where it is needed.</p> <p>In 2013, 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.</p> <p>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.</p> <p>At this time our Chairperson offered a moment of silence to our member/owners who passed away in 2013.</p> <p>In closing, Mr. Blake offered his personal appreciation to the Board of Directors and Staff for a job well done.</p> <p>This report is respectfully submitted on behalf of the Board.</p>
<b>5.0</b>	<p><b><u>Report of the CEO/Treasurer</u></b></p> <p><b>Presented by Dan Honnor</b></p> <p>Mr. Honnor welcomed everyone to the meeting and thanked them for their tremendous support, commenting on the wonderful attendance in Triton.</p> <p>Mr. Honnor noted that our Credit Union now services almost 4,000 member/owners and administers \$55 million in assets, over \$13 million through our partner, League Savings and Mortgage.</p>

MINUTES  
HAMILTON SOUND CREDIT UNION  
23<sup>RD</sup> ANNUAL GENERAL MEETING  
April 3<sup>rd</sup>, 2014

	<p>Steady growth in our Credit Union was seen again in 2013: overall your Credit Union had over 4% growth in membership, over 7% in deposits and over 15% in loans. Our continued success must be attributed to extensive planning and sound management; combined with the support of everyone affiliated with our Credit Union.</p> <p>The past ten (10) years have been very positive in the growth and well-being of your Credit Union and 2014 should emerge in a similar fashion.</p> <p>Mr. Honnor gave a background on the importance of Credit Unions in our communities. He stated that there are over Fifty Four (54) Credit Unions in the Atlantic region comprising one of Canada's largest networks of financial institutions.</p> <p>In closing, our CEO thanked the Board of Directors for their guidance and support over 2013, 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.</p>
<p><b>6.0</b></p>	<p><b><u>Review of the Auditor's Report and Financial Statements</u></b></p> <p><b>Presented by Dan Honnor</b></p> <p>Mr. Honnor presented the Financial Statements, explained the highlights of the report and invited any comments or questions.</p> <p><b>MOTION 14/04/03-03:</b> to accept the Auditor's Report and financial statements, as presented.</p> <p><b>MOVED BY:</b> Ralph Guy  <b>SECONDED BY:</b> Pat Williams  <b>MOTION CARRIED</b></p>
<p><b>7.0</b></p>	<p><b><u>Appointment of Auditors</u></b></p> <p>Our CEO recommended that we retain the services of Byron Smith, Chartered Accountant for the year 2014.</p> <p><b>MOTION 14/04/03-04:</b> to retain Byron Smith as auditor, to the year ending December 31, 2014.</p> <p><b>MOVED BY:</b> Watson Mouland  <b>SECONDED BY:</b> Orvin Roberts  <b>MOTION CARRIED</b></p> <p><b><u>Introduction of Special Guest</u></b>  At this time Mr. Blake introduced our special guest, Clayton Handrigan, from the board of the Credit Union Deposit Guarantee Corporation (CUDGC), and welcomed him to our meeting.</p>

MINUTES  
HAMILTON SOUND CREDIT UNION  
23<sup>RD</sup> ANNUAL GENERAL MEETING  
April 3<sup>rd</sup>, 2014

	<p>Mr. Handrigan brought greetings from the Minister of Service NL, Hon. Dan Crummell, the Board of CUDGC, CEO – Bill Langthorne and the Assistant Deputy Minister, Julian McCarthy. He congratulated the Board and Staff of our Credit Union for another good year and thanked us for the opportunity to attend tonight’s meeting.</p> <p>Mr. Handrigan relayed that he was impressed with the number of people in attendance. He stated that the Hamilton Sound Credit Union is performing well and that is in keeping with the whole credit union system in our province. In 2013 the Credit union system reached a milestone with assets totaling 1 billion dollars, and we are all a part of this achievement.</p> <p>Mr. Handrigan explained that CUDGC is a regulatory body that enforces the Credit Union Act and Regulations. He stated that CUDGC is trying to increase public and member awareness of our regulatory responsibilities and inform them of our extraordinary deposit insurance of \$250,000 per type of account.</p> <p>Clayton also mentioned, in the second quarter of this year, there will be webinar/awareness survey available on the CUDGC website at <a href="http://www.cudgcnl.com">www.cudgcnl.com</a> .</p> <p>In closing he congratulated the Board, Management and Staff for doing such a great job, wished them success in 2014 and was looking forward to coming back next year.</p>
<p><b>8.0</b></p>	<p><b><u>Report of the Nominating Committee</u></b></p> <p><b>Presented by Dan Honnor</b></p> <p>There are three (3) people nominated for re-election this year – Watson Mouland, Gerald McKenna and Lindy Vincent.</p> <p>Watson Mouland and Gerald McKenna were nominated by Acclamation. Lindy Vincent is up for re-election.</p> <p>Election of Officers conducted by Clayton Handrigan:</p> <p>Nominated: Lindy Vincent – representing the Triton &amp; Central NL area. Nominations were called 3 times with no additional nominees. Being no nominations from the floor, for the Triton area, Lindy Vincent was determined elected by acclamation.</p> <p>Mr. Handrigan asked attendees to join him in congratulating the nominees on their election.</p>
<p><b>9.0</b></p>	<p><b><u>New Business</u></b></p> <p>Mr. Blake provided an invitation for anyone wishing to discuss new business.</p> <p>There was none forthcoming.</p> <p>Frank then introduced the Board at the front table. He directed everyone to back of AGM booklet where a list of organizations supported by the Credit Union was located.</p>

MINUTES  
HAMILTON SOUND CREDIT UNION  
23<sup>RD</sup> ANNUAL GENERAL MEETING  
April 3<sup>rd</sup>, 2014

	<p>Dan then introduced Branch Manager (Triton) Kelly Vincent and asked her to introduce the staff at the Triton Branch.</p> <p>Dan then proceeded to acknowledge other staff in attendance Dion Jackson (Operations Manager) , Cindy Collins (Branch Manager Gander), Katie Parrot (FSO Gander), Tina Hodder (Branch Manager/Human Resources Carmanville) and Sally Mouland (FSR Carmanville).</p>
<b>10.0</b>	<p><b><u>Adjournment</u></b></p> <p><b>MOTION 14/04/03-05:</b> to adjourn.</p> <p><b>MOVED BY:</b> Gerald Mckenna</p> <p>Meeting adjourned at 7:35 p.m.</p>

Dated this 3<sup>rd</sup>, day of April, 2014.

**President:** Frank L. Blake

**Secretary:** Audrey M. M. M.

## REPORT OF THE BOARD OF DIRECTORS

The Board of Hamilton Sound Credit Union is pleased to report that 2014 was once again, a successful year. Our credit union experienced a year of solid growth of over 9% in 2014. This success was supplemented by another year of positive earnings.

Our Balance Sheet is strong. Therefore, our Credit Union continues to be involved in 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 2014, 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 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.

Reporting to you on last year's progress is once again a very pleasant task. While our credit union had significant growth, we were hampered by a substantial increase in member bankruptcies and general delinquency; but we now provide service to over 4,100 member/owners and administer \$59 million in assets; over \$14 million through our partner, League Savings and Mortgage Company. Steady growth in our credit union was seen again in 2014; overall your credit union had a 4% growth in membership, almost 10% in deposits and just about 8% in loans. Our continued success must be attributed to extensive planning and sound management; combined with the support of everyone affiliated with our credit union.

The past year saw a reduction in earnings due to bad debts but we have reviewed our processes and risk levels and are certain that every precaution has been taken to help reduce the impact for 2015.

I would like to thank our Board of Directors for their guidance and support during 2014, 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, 2014**

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## **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, 2014, 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 procedure's 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, 2014, 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 19, 2015

CHARTERED ACCOUNTANT

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**Hamilton Sound Credit Union Limited**  
**Statement of Financial Position**

<b>As at December 31,</b>	<b>2014</b>	<b>2013</b>
<b>Assets</b>		
Cash	\$ 1,779,118	\$ 1,737,813
Deposits - interest bearing and liquidity accounts (Note 4)	5,669,758	4,314,953
Investments (Note 4)	566,260	551,040
Loans and mortgages receivable (Note 6)	35,734,286	33,210,830
Current income taxes receivable	21,643	3,429
Other assets (Note 8)	54,254	45,889
Property, plant and equipment (Note 7)	<u>1,427,158</u>	<u>1,512,055</u>
	<u>\$ 45,252,477</u>	<u>\$ 41,376,009</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 108,240	\$ 192,524
Members deposits (Note 9)	43,208,571	39,314,378
Future income taxes payable	<u>13,637</u>	<u>12,258</u>
	<u>43,330,448</u>	<u>39,519,160</u>
<b>Member Equity</b>		
Retained Earnings	<u>1,922,029</u>	<u>1,856,849</u>
	<u>\$ 45,252,477</u>	<u>\$ 41,376,009</u>

**Approved by the Board:**

Frank L. Blake Director

Audrey Whitway Director

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

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**Hamilton Sound Credit Union Limited**  
**Statement of Comprehensive Income****For the Year Ended December 31,****2014****2013**

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**Financial Revenue**

Interest	\$ 2,788,564	\$ 2,591,852
Investment income	<u>55,747</u>	<u>55,357</u>
	2,844,311	2,647,209

**Cost of Funds**

Interest on members deposits	<u>(877,814)</u>	<u>(820,542)</u>
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**Financial margin**

1,966,497      1,826,667

**Other income**

Commissions	355,233	441,338
Other (Note 14)	<u>503,895</u>	<u>528,769</u>
	<u>2,825,625</u>	<u>2,796,774</u>

**Operating Expenses**

Member security (Note 15)	385,497	228,861
General business (Note 16)	1,201,196	1,172,361
Personnel	<u>1,162,347</u>	<u>1,167,808</u>
	<u>2,749,040</u>	<u>2,569,030</u>

**Net income before income taxes**

76,585      227,744

**Income taxes**

- future (recovery)	1,377	2,842
- current	<u>10,028</u>	<u>31,320</u>

**Net income for the year before other items**

65,180      193,582

**Other items**NIL      NIL**Total Comprehensive Income**\$ 65,180      \$ 193,582

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

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**Hamilton Sound Credit Union Limited**  
**Statement of Changes in Members Equity**

<b>For the Year Ended December 31,</b>	<b>2014</b>	<b>2013</b>
<b>Retained earnings, beginning of year</b>	\$ 1,856,849	\$ 1,663,267
<b>Total Comprehensive Income</b>	<u>65,180</u>	<u>193,582</u>
<b>Retained earnings, end of year</b>	<u>\$ 1,922,029</u>	<u>\$ 1,856,849</u>

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**Retained earnings is comprised of the following:**

<b>Retained earnings from operations</b>	\$ 1,893,029	\$ 1,827,849
<b>Stock dividend</b>	<u>29,000</u>	<u>29,000</u>
	<u>\$ 1,922,029</u>	<u>\$ 1,856,849</u>

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

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**Hamilton Sound Credit Union Limited**  
**Statement of Cash Flows****For the Year Ended December 31,****2014****2013**

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**CASH FLOWS FROM OPERATING ACTIVITIES****Operating activities**

Net income	\$ 65,180	\$ 193,582
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization	<u>101,214</u>	<u>119,988</u>
	166,394	313,570
Change in assets and liabilities:		
Decrease in accounts payable and accrued liabilities	(84,284)	(35,117)
Future income taxes receivable	1,379	2,842
Current income taxes receivable	(18,214)	520
Other assets	<u>(8,365)</u>	<u>43,609</u>
Net cash provided by operating activities	<u>56,910</u>	<u>325,424</u>
<b>Cash Flows from Financing Activities</b>		
Increase in member deposits	<u>3,894,193</u>	<u>2,596,071</u>
<b>Cash Flows from Investing Activities</b>		
Decrease (increase) in investments	(15,220)	(62,370)
Increase in loans and mortgages receivable	(2,523,456)	(4,466,961)
Increase in capital assets	<u>(16,317)</u>	<u>(14,486)</u>
Net cash used in investing activities	<u>(2,554,993)</u>	<u>(4,543,817)</u>
<b>Increase (decrease) in cash</b>	1,396,110	(1,622,322)
<b>Cash, beginning of year</b>	<u>6,052,766</u>	<u>7,675,088</u>
<b>Cash, end of year</b>	<u>\$ 7,448,876</u>	<u>\$ 6,052,766</u>

**Cash balances consist of:**

Cash and cash equivalents	\$ 1,779,118	\$ 1,737,813
Cash - required liquidity	<u>5,669,758</u>	<u>4,314,953</u>
	<u>\$ 7,448,876</u>	<u>\$ 6,052,766</u>

**Supplementary Cash Flow Information:**

Income taxes paid	<u>\$ 29,120</u>	<u>\$ 34,749</u>
Interest paid	<u>\$ 865,587</u>	<u>\$ 820,548</u>

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

**December 31, 2014**

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## **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, 2014 were authorized for issue by the Credit Union's Board of Directors on February 19, 2015.

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-term 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.

**December 31, 2014**

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## **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.

**December 31, 2014**

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## **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.

December 31, 2014

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## 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.

**December 31, 2014**

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## **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*.

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## **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

**December 31, 2014**

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## **2. Significant Accounting Policies (Continued)**

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. 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.

### **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.

#### **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.

**December 31, 2014**

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## **2. Significant Accounting Policies (Continued)**

### **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, 2014 is 1.5 %.

## **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**

	<u>2014</u>	<u>2013</u>
Atlantic Central Liquidity reserve deposits	\$ <u>5,669,758</u>	\$ <u>4,314,953</u>

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 if 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.

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**

	<u>2014</u>	<u>2013</u>
Atlantic Central Common Shares	\$ 398,880	\$ 383,660
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	<u>14,120</u>	<u>14,120</u>
Total Equity Instruments	\$ <u>566,260</u>	\$ <u>551,040</u>

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**Hamilton Sound Credit Union Limited**  
**Notes to the Financial Statements**

**December 31, 2014**

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**4. Investments (Continued)**

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.

**5. Derivative Financial Instruments**

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

**6. Loans and Mortgages Receivable**

	<u>2014</u>	<u>2013</u>
Current loans	\$ 32,748,514	\$ 30,101,490
Current mortgages	2,943,617	2,943,617
Impaired loans and mortgages	<u>281,223</u>	<u>281,223</u>
	35,973,354	33,326,330
Less: allowance for impaired loans	<u>(239,068)</u>	<u>(115,500)</u>
Net loans and mortgages receivable	<u>\$ 35,734,286</u>	<u>\$ 33,210,830</u>

Current loans include transaction costs (referral fees) as follows: 2014 - \$ 432,902; 2013 - \$ 387,155. 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:

	<u>2014</u>	<u>2013</u>
Balance, beginning of the year	\$ 115,500	\$ 159,179
Loans written off as uncollectible	<u>(160,502)</u>	<u>(177,114)</u>
	(45,002)	(17,935)
Additional provision (recovery)	<u>284,070</u>	<u>133,435</u>
Balance, end of year	<u>\$ 239,068</u>	<u>\$ 115,500</u>

**Hamilton Sound Credit Union Limited**  
**Notes to the Financial Statements**

**December 31, 2014**

**6. Loans and Mortgages Receivable (continued)**

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

	<u>2014</u>	<u>2013</u>
Current loans	3,048	2,976
Current mortgages	71	53
Impaired loans and mortgages	<u>38</u>	<u>36</u>
	<u>3,157</u>	<u>3,065</u>

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

	<u>December 31, 2014</u>		<u>December 31, 2013</u>	
	<u>Carrying Value</u>	<u>Individual Specific Provision</u>	<u>Carrying Value</u>	<u>Individual Specific Provision</u>
<b>Period of delinquency</b>				
Less than 90 days	\$ 36,252	\$ 36,052	\$ 17,132	\$ 10,773
Over 90 days	<u>400,997</u>	<u>203,016</u>	<u>264,091</u>	<u>104,727</u>
Total loans in arrears	437,249	239,068	281,223	115,500
Total loans not in arrears	<u>35,536,105</u>	<u>                    </u>	<u>33,045,107</u>	<u>                    </u>
Total loans	\$ <u>35,973,354</u>	\$ <u>239,068</u>	\$ <u>33,326,330</u>	\$ <u>115,500</u>

**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, 2014 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.

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**Hamilton Sound Credit Union Limited**  
**Notes to the Financial Statements**

**December 31, 2014**

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**6. Loans and Mortgages Receivable (continued)**

**Average Yields to Maturity**

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

	<u>Principal</u>	<u>2014 Yield</u>	<u>Principal</u>	<u>2013 Yield</u>
Variable rate	\$ 1,099,590	7.12%	\$ 1,566,200	7.51%
Fixed rate	<u>34,873,764</u>	6.93%	<u>31,760,130</u>	7.26%
	<u>\$ 35,973,354</u>		<u>\$ 33,326,330</u>	

**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:

	<u>2014</u>	<u>2013</u>
Unsecured loans	\$ 4,983,095	\$ 4,868,007
Loans secured by cash, member deposits	\$ 165,805	\$ 1,620,632
Loans guaranteed by government	\$ 227,503	\$ 310,873

**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 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**  
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**7. Property, plant and equipment**

<b>Cost</b>	<b>Land</b>	<b>Buildings</b>	<b>Leasehold Improvements</b>	<b>Paving &amp; fence</b>	<b>Furniture and Fixtures</b>	<b>Total</b>
Balance on December 31, 2013	\$ 47,168	\$ 1,428,805		\$ 133,861	\$ 535,619	\$ 2,145,453
Additions					16,317	16,317
Disposals						
Balance on December 31, 2014	<u>47,168</u>	<u>1,428,805</u>		<u>133,861</u>	<u>551,936</u>	<u>2,161,770</u>
<b>Accumulated Amortization</b>						
Balance on December 31, 2013		179,098		42,942	411,358	633,398
Amortization expense		31,152		9,799	60,263	101,214
Disposals						
Balance on December 31, 2014		<u>210,250</u>		<u>52,741</u>	<u>471,621</u>	<u>734,612</u>
<b>Net Book Value</b>						
December 31, 2013	<u>\$ 47,168</u>	<u>\$ 1,249,707</u>	<u>\$ NIL</u>	<u>\$ 90,919</u>	<u>\$ 124,261</u>	<u>\$ 1,512,055</u>
December 31, 2014	<u>\$ 47,168</u>	<u>\$ 1,218,555</u>	<u>\$ NIL</u>	<u>\$ 81,120</u>	<u>\$ 80,315</u>	<u>\$ 1,427,158</u>

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**Hamilton Sound Credit Union Limited**  
**Notes to the Financial Statements**

**December 31, 2014**

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**8. Other Assets**

	<u>2014</u>	<u>2013</u>
Prepaid expenses	\$ 30,894	\$ 24,505
Other accounts receivable	<u>23,360</u>	<u>21,384</u>
	<u>\$ 54,254</u>	<u>\$ 45,889</u>

**9. Member Deposits**

	<u>2014</u>	<u>2013</u>
Chequing accounts	\$ 6,564,914	\$ 5,380,044
Term deposits and accrued interest	13,963,045	12,606,626
R.R.S.P. funds plus accrued interest	11,506,451	11,331,962
Plan 24 accounts	10,569,734	9,403,723
Equity share accounts	410,202	394,023
Special equity share accounts	<u>194,225</u>	<u>198,000</u>
	<u>\$ 43,208,571</u>	<u>\$ 39,314,378</u>

**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.

**Hamilton Sound Credit Union Limited**  
**Notes to the Financial Statements**

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**10. Income Taxes**

The components of income tax expense are:

	<u>2014</u>	<u>2013</u>
Income taxes - current	\$ 10,028	\$ 31,320
Future income taxes -on reversal of timing differences	<u>1,377</u>	<u>2,842</u>
	<u>\$ 11,405</u>	<u>\$ 34,162</u>

**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 \$ 245,891 (2013 - \$ 202,094).

At December 31, 2014, the aggregate value of interest-bearing personal and mortgage loans outstanding to directors, officers and employees totaled \$ 996,241 (2013 - \$ 799,181). 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 \$ 3,292,657 (2013 - \$ 2,380,698).

**12. Financial Instrument Classification and Fair Value**

The following table represents the carrying amount by classification.

	<u>Available-for- Sale</u>	<u>Fair Value through Profit or Loss</u>	<u>Cash Flow Hedges</u>	<u>Loans and Receivables</u>	<u>Other Financial Liabilities</u>
<b>December 31, 2014</b>					
Cash	\$ 4,856,362			\$ 2,592,514	
Investments		\$ 566,260			
Loans to members				35,734,286	
Other assets	75,897				
Member deposits					\$ 43,208,571
Members' shares					
Other liabilities					<u>121,877</u>
	<u>\$ 4,932,259</u>	<u>\$ 566,260</u>	<u>\$ NIL</u>	<u>\$ 38,326,800</u>	<u>\$ 43,330,448</u>
<b>December 31, 2013</b>					
Cash	\$ 3,693,903			\$ 2,358,863	
Investments		\$ 551,040			
Loans to members				33,210,830	
Other assets	49,318				
Member deposits					\$ 39,314,378
Members' shares					
Other Liabilities					<u>204,782</u>
	<u>\$ 3,743,221</u>	<u>\$ 551,040</u>	<u>\$ NIL</u>	<u>\$ 35,569,693</u>	<u>\$ 39,519,160</u>

December 31, 2014

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## 12. Financial Instrument Classification and Fair Value (Continued)

### Capital Adequacy/Capital Management

Pursuant to S.19 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, 2014. During 2013 the Credit Union received a stock dividend in the amount of \$ 29,000. This amount is included in retained earnings.

	<u>2014</u>	<u>2013</u>
Required capital		
5% of total assets	\$ <u>2,262,624</u>	\$ <u>2,068,800</u>
Actual capital		
Retained Earnings	1,922,029	1,856,849
Equity shares	410,202	394,023
Special equity shares	<u>194,225</u>	<u>198,000</u>
	<u>2,526,456</u>	<u>2,448,872</u>
Excess capital	\$ <u>263,832</u>	\$ <u>380,072</u>

## 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.

**December 31, 2014**

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### **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, 2014, the position of the Credit Union is as follows:

	<b>Maximum Exposure</b>
Qualifying liquid assets on hand	
Cash	\$ 1,779,118
Liquidity reserve deposit	5,669,758
Other deposits and term deposits maturing within one year	<u>Nil</u>
	7,448,876
Total liquidity requirement	<u>2,592,514</u>
Excess liquidity	<u>\$ 4,856,362</u>

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.

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**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.

	<u>Assets</u>	<u>Yield (%)</u>	<u>Liabilities</u>	<u>Cost (%)</u>	<u>Asset / Liability Gap</u>
<b>Maturity dates interest sensitive</b>					
Variable	\$ 1,099,590	7.12	\$ 16,188,700	0.35	\$ (15,089,110)
0-3 months	4,526,370	3.97	3,112,700	3.49	1,413,670
4-6 months	1,384,620	4.74	959,370	3.39	425,250
7-9 months	1,193,370	4.03	434,320	3.12	759,050
1 year	1,301,180	2.99	972,610	3.23	328,570
2 years	4,120,830	8.38	6,122,590	3.84	(2,001,760)
3 years	6,527,550	8.47	6,390,650	3.81	136,900
4 years	8,919,580	7.84	2,065,860	2.84	6,853,720
5 years	9,320,270	7.64	3,186,530	3.15	6,133,740
> 5 years	<u>3,199,120</u>	7.68	<u>                    </u>		<u>3,199,120</u>
	41,592,480		39,433,330		2,159,150
Non interest sensitive	<u>3,659,997</u>		<u>3,897,118</u>		<u>(237,121)</u>
<b>Total</b>	<b>\$ <u>45,252,477</u></b>		<b>\$ <u>43,330,448</u></b>		<b>\$ <u>1,922,029</u></b>

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**Hamilton Sound Credit Union Limited**  
**Notes to the Financial Statements**

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**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.

Based on the above schedule, an analysis of the Credit Unions's risk due to changes in interest rates determined that an increase in interest rates of 1% on variable interest sensitive instruments could result in a decrease to net income of approximately \$150,891 while a decrease of interest rates of 1% could result in a increase to net income of approximately \$ 45,665.

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**

	<u>2014</u>	<u>2013</u>
Miscellaneous	\$ 38,304	\$ 46,073
Referral fees	17,647	45,657
Service charges and fees	<u>447,944</u>	<u>437,039</u>
	<u>\$ 503,895</u>	<u>\$ 528,769</u>

**15. Member Security**

	<u>2014</u>	<u>2013</u>
Bad debt expense	\$ 284,070	\$ 133,435
Asset and liability management fees	5,075	5,000
Credit Union Deposit Guarantee Corporation assessment	67,608	63,635
Insurance	<u>28,744</u>	<u>26,791</u>
	<u>\$ 385,497</u>	<u>\$ 228,861</u>

**16. General Business**

	<u>2014</u>	<u>2013</u>
Advertising and promotion	\$ 72,978	\$ 69,063
Amortization	101,214	119,988
Credit Bureau fees	18,028	19,395
Dues and assessments - Atlantic Central and others	54,914	49,127
Dealer commissions	281,883	264,175
EDP fees	246,049	219,985
EDP system maintenance	20,329	48,640
Occupancy costs	124,798	110,317
Office expenses	30,452	35,928
Other	24,079	32,509
Professional fees	40,165	32,812
RRSP administration fee	4,330	4,953
Service charges	47,810	37,107
Telephone	29,815	28,577
Travel	72,618	69,948
Transportation - security	<u>31,734</u>	<u>29,837</u>
	<u>\$ 1,201,196</u>	<u>\$ 1,172,361</u>

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**Hamilton Sound Credit Union Limited**  
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**17. Short-term Borrowings**

The Credit Union has available short-term borrowings of \$ 1,000,000 bearing interest at a rate of 3%, 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:

	<u>2014</u>	<u>2013</u>
Unadvanced loans	\$ 66,100	\$ 571,593
Unsued lines of credit	\$ 1,702,485	\$ 1,353,720
Letters of credit	\$ NIL	\$ NIL

## **REPORT OF THE NOMINATING COMMITTEE**

For the Year ended December 31st, 2014

There are three (3) directors up for re-election this year and. 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**

Ralph Guy (R)

- representing Central NL area

Pat Williams (R)

- representing Triton area

Orvin Roberts (R)

- representing Triton area

### **Nominating Committee**

Jim Crewe

Dan Honnor

Watson Mouland

## ORGANIZATIONS SUPPORTED

1. 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
2. Cancer Ride for Sight
3. Triton Royal Canadian Sea Cadets
4. Cancer Run for the Cure
5. Hockey Teams Gander & Triton
6. Community Calendars Triton, Carmanville & Stag Harbour
7. Musgrave Harbour Derby
8. Festivals in Joe Batt’s Arm, Triton, Carmanville & Musgrave Harbour
9. Multiple Safe Grads at local schools
10. Multiple community fire departments
11. Student achievement awards – local schools
12. Royal Canadian Legion
13. Ride for Dad

Direct Staff Support - SPCA





# Did you know?

The **bank of choice** for many businesses is **no bank** at all.



Credit unions ranked #1 in serving small and medium-sized enterprises (SME), according to a survey by the Canadian Federation of Independent Business (CFIB). Credit unions have been ranked #1 by CFIB members in four of the last five triennial surveys.



### Celebrating 10 Years of Excellence

For the 10<sup>th</sup> consecutive year, Canadians ranked credit unions #1 in overall **Customer Service Excellence** among all Canadian financial institutions in the 2014 Ipsos® Best Banking Awards program.\*

### Best Places to Work

Six Atlantic credit unions are proud to be included as Best Places to Work by Progress Magazine.



[focusedonme.ca](http://focusedonme.ca)

\*The Ipsos 2014 Best Banking Awards are based on quarterly Customer Service Index (CSI) survey results. Sample size for the total 2014 CSI program year ended August 2014 was 45,428 completed surveys yielding 68,738 financial institution ratings.





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

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

PO Box 388  
80 Roe Avenue  
Gander, NL A1V 1W8  
Tel (709) 651-0600  
Fax (709) 651-0505

**Toll Free 1-877-651-8785**