HAMILTON MUNICIPAL EMPLOYEES' CREDIT UNION LIMITED

FINANCIAL STATEMENTS

For the year ended December 31, 2013

Millards
Chartered Accountants

HAMILTON MUNICIPAL EMPLOYEES' CREDIT UNION LIMITED

For the year ended December 31, 2013

INDEX

Millards
Chartered Accountants

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INDEPENDENT AUDITORS' REPORT

To the Members of Hamilton Municipal Employees' Credit Union Limited

We have audited the accompanying financial statements of Hamilton Municipal Employees' Credit Union Limited, which comprise the statement of financial position as at December 31, 2013, and the statements of comprehensive income, changes in members' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Hamilton Municipal Employees' Credit Union Limited as at December 31, 2013 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Millard, Rouse & Rosebrugh LLP

February 20, 2014

CHARTERED ACCOUNTANTS
Licensed Public Accountants

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

HAMILTON MUNICIPAL EMPLOYEES' CREDIT UNION LIMITED

STATEMENT OF FINANCIAL POSITION

As at December 31	2013	2012
ASSETS		
Current Assets		
Cash and bank	2,390,911	4,828,479
Investments (Note 4)	15,880,604	17,002,029
Derivatives (Note 5)	864,094	914,570
Loans to members (Note 6)	141,378,072	133,527,011
Accounts receivable	381,226	47,951
Prepaid expenses	339,889	492,199
Property, plant and equipment (Note 8)	2,743,204	2,587,276
Intangible assets (Note 8)	357,828	-
	164,335,828	159,399,515
LIABILITIES		
Members' deposits (Note 9)	151,384,805	146,951,486
Accounts payable and accrued liabilities	1,216,297	1,077,794
Derivatives (Note 5)	811,437	754,101
Income taxes payable	5,475	10,313
Deferred income tax liability	64,032	45,484
Members' share capital (Note 10)	1,008,225	1,045,856
	154,490,271	149,885,034
MEMBERS' EQUITY		
Undivided Earnings	213,821	217,458
Accumulated Other Comprehensive Income	31,736	97,023
Reserves (Note 11)	9,600,000	9,200,000
	9,845,557	9,514,481
	164,335,828	159,399,515

Michael Kay, Chair

Ross Holland, Secretary

See accompanying notes

HAMILTON MUNICIPAL EMPLOYEES' CREDIT UNION LIMITED

STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31	2013	2012
Interest Revenue (Note 13)	6,367,861	6,437,644
Interest Expense (Note 14)	1,668,616	1,852,416
Interest Margin	4,699,245	4,585,228
Other income	1,705,089	1,577,994
Income Before Operating Expenses	6,404,334	6,163,222
Operating Expenses		
Employee salaries and benefits	3,287,884	3,183,538
Occupancy	489,069	463,750
Administration	628,397	613,996
Data processing	767,476	779,942
Lending	218,861	136,207
Loan protection and life savings insurance	32,440	33,169
Member deposit insurance	148,006	144,349
Board and committee expenses	70,499	64,008
Amortization	292,317	273,693
	5,934,949	5,692,652
Income Before Income Taxes	469,385	470,570
Income taxes - current (Note 15)	42,498	53,428
- deferred	30,524	20,257
Net Income	396,363	396,885
Other Comprehensive Income (Loss)		
Change in unrealized gains / (losses) on derivative instruments designated as cash flow hedges	(77,263)	(200,113)
Tax effect of change in unrealized gains on cash flow hedges	11,976	29,443
Other Comprehensive Income (Loss) for the Year	(65,287)	(170,670)
Comprehensive Income for the Year	331,076	226,215

See accompanying notes

HAMILTON MUNICIPAL EMPLOYEES' CREDIT UNION LIMITED

STATEMENT OF CHANGES IN MEMBERS' EQUITY

	Accumulated Other Comprehensive Income Cash Flow Hedges	Reserves	Retained Earnings	Total
Balance at January 1, 2012	267,693	8,700,000	320,573	9,288,266
Net Income			396,885	396,885
Transfer to reserves	-	500,000	(500,000)	-
Change in unrealized gains / (losses) on cash flow hedges	(170,670)	-	-	(170,670)
Balance at December 31, 2012	97,023	9,200,000	217,458	9,514,481
Net Income			396,363	396,363
Transfer to reserves	-	400,000	(400,000)	-
Change in unrealized gains / (losses) on cash flow hedges	(65,287)	-	-	(65,287)
Balance at December 31, 2013	31,736	9,600,000	213,821	9,845,557

See accompanying notes

HAMILTON MUNICIPAL EMPLOYEES' CREDIT UNION LIMITED

STATEMENT OF CASH FLOWS

For the year ended December 31	2013	2012
Cash Flows From Operating Activities		
Net Income	396,363	396,885
Adjustments for:		
Interest revenue	(6,367,861)	(6,437,644)
Interest expense	1,668,616	1,852,416
Interest received on member loans	5,853,336	5,708,185
Interest received on investments	464,911	706,665
Interest paid on member deposits	(1,761,812)	(1,991,206)
Amortization	292,317	273,693
Deferred income taxes	30,524	20,257
Income taxes (paid) recovered	(47,336)	58,755
Net change in non-cash working capital balances related to operations	30,587	(220,567)
	559,645	367,439
Cash Flows From Financing Activities		
Member deposits and share capital	4,488,883	4,830,903
Cash Flows From Investing Activities		
Purchase of property, plant and equipment and intangible assets	(806,073)	(176,494)
Loans and mortgages to members	(7,813,186)	(7,648,107)
Investments	1,133,163	(2,599,008)
	(7,486,096)	(10,423,609)
Net Decrease in Cash and Cash Equivalents	(2,437,568)	(5,225,267)
Opening Cash and Cash Equivalents	4,828,479	10,053,746
Closing Cash and Cash Equivalents	2,390,911	4,828,479

See accompanying notes

1. NATURE OF OPERATIONS

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

These financial statements have been authorized for issue by the Board of Directors on February 20, 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

CUCO Coop Investments
The investment in CUCO Cooperative shares is designated as Held for Trading and recorded at fair value. Changes in market value are recorded as investment income and included in net income.

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

Hedges

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

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

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

Market Based Deposits

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

Loans to Members

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

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

Property, Plant and Equipment and Amortization

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

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

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

Accounts Payable

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

Income Taxes

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

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

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

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

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

Member Deposits

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

Members' Shares

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

Provisions

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

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

Revenue Recognition
Interest on loans and investments is recognized as earned at the end of each month and when ultimate collection is reasonably assured.

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

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

Standards, Amendments and Interpretations Not Yet Effective
Certain new standards, amendments and interpretations have been published that are mandatory for the credit union's accounting periods beginning on or after January 1, 2014 or later periods that the credit union has decided not to early adopt. The standards, amendments and interpretations that will be relevant to the credit union are:

(i) IFRS 9 Financial Instruments 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 was to be effective for annual periods beginning on or after January 1, 2015 however in November 2013 the IASB removed the mandatory adoption date for IFRS 9 and has not set a new adoption date. The Credit Union is in the process of evaluating the impact of the new standard and will continue to monitor developments that may impact its financial reporting.

None of the other new standards, interpretations or amendments, which are effective for the Credit Union's accounting periods beginning after January 1, 2014 and which have not been adopted early, are expected to impact on the Credit Union's future financial statements.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

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

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

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

4. INVESTMENTS

	2013	2012
Debt Instruments		
Central 1 Liquidity reserve deposit	9,942,194	9,584,577
Central 1 discount deposits	1,641,304	2,244,371
Other debt instruments	2,355,764	3,063,080
Accrued interest	59,838	48,100
Total Central 1 Deposits	13,999,100	14,940,128
Equity Instruments		
Central 1 Credit Union - Class A	555,958	547,467
Central 1 Credit Union - Class E	692,400	692,400
CUCO Cooperative Association	631,661	820,549
Other investments	1,485	1,485
Total Equity instruments	1,881,504	2,061,901
	15,880,604	17,002,029

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

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

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

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

4. INVESTMENTS (Cont'd)

CUCO Cooperative Association

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

5. DERIVATIVES

The credit union has outstanding $8,648,869 (2012 - $9,406,870) in index linked term deposits to its members. The index linked term deposits are three and five year deposits that pay interest at the end of the term, based on the performance of a variety of indices. The embedded derivative associated with these deposits are presented in liabilities and have a fair value of $811,437 (2012 - $754,101).

The credit union has entered into hedge agreements with Central 1 to offset the exposure to the indices associated with this product, whereby the credit union pays a fixed rate of interest for the term of each index linked term deposit on the face value of the deposits sold. At the end of the term, the credit union receives an amount equal to the amount that will be paid to the depositors, based on the performance of the indices. As at December 31, 2013, the credit union had entered into such contracts on index linked term deposits for a total of $8,532,474. The agreements are secured by a general security agreement covering all assets of the credit union.

From time to time, in the ordinary course of business, the credit union enters into interest rate swaps in order to hedge against exposure to interest rate fluctuations. At December 31, 2013, the credit union was party to eight such agreements with Central 1 Credit Union, one of which has a delayed start date of January 13, 2014. The agreements, in aggregate, represent a notional principal amount of $15,000,000 ($13,000,000 in 2012), maturing between April 2014 and June 2018.

Under the terms of these agreements, the credit union has contracted with the counter party to pay interest at a variable rate equivalent to the one month CDOR rate to be repriced monthly, while receiving interest at a fixed rate on the notional principal amount. The credit union is currently receiving or will receive fixed rates on these swaps ranging from 1.555% to 2.96% and is paying variable rates as at December 31, 2013 ranging from 1.22% to 1.275%.

5. DERIVATIVES (Cont'd)

	2013	2012
Derivative assets		
Index linked hedge receivable from Central 1	811,437	754,101
Interest rate swaps	52,657	160,469
	864,094	914,570
Derivative liabilities		
Index linked derivatives payable on member deposits	811,437	754,101

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

6. LOANS TO MEMBERS

	2013	2012
Personal loans	16,974,232	15,204,869
Residential mortgages	119,089,432	115,416,527
Bridge loans	93,437	-
Syndicated loans	5,182,787	2,875,200
Accrued interest	230,258	192,382
	141,570,146	133,688,978
Less: allowance for impaired loans (Note 7)	192,074	161,967
Total Loans Receivable	141,378,072	133,527,011

Personal loans consist of term loans and lines of credit that are not real estate secured and, as such, have various repayment terms. Some personal loans are secured by wage assignments and personal property or investments, and others are secured by wage assignment only. Personal loans have fixed or variable interest rates and a maximum term of 5 years with an average rate of 6.92% at December 31, 2013 (6.93% in 2012).

Residential mortgages are loans and lines of credit secured by residential property and are generally repayable monthly with blended payments of principal and interest. Residential mortgages have fixed or variable interest rates with an average rate of 3.86% at December 31, 2013 (4.02% in 2012).

6. LOANS TO MEMBERS (Cont'd)

Syndicated loans consist of commercial loans and mortgages to individuals, partnerships and corporations and have various repayment terms. They are secured by various types of collateral including mortgages on real property, general security agreements, and personal guarantees. These loans have fixed or variable interest rates with an average rate of 5.26% at December 31, 2013 (5.35% in 2012).

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:

	2013	2012
Unsecured loans	5,154,215	3,863,947
Loans secured by cash or property	11,913,454	11,340,922
Residential mortgages	96,314,864	92,320,385
Insured residential mortgages	22,774,568	23,096,142
Loans secured by commercial property	5,182,787	2,875,200
	141,339,888	133,496,596

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

Individual or related groups of members loans which exceed 10% of members' equity:

	2013	2012
Syndicated loans	1,382,169	954,232

All member loans are with members located in Southwestern Ontario.

7. ALLOWANCE FOR IMPAIRED LOANS

Total allowance for impaired loan provision comprises:

	2013	2012
Collective provision	84,864	81,307
Individual specific provision	107,210	80,660
Total provision	192,074	161,967

The allowance for impaired loans is broken down as follows:

	Allowance for Impaired Loans		Aggregate Impaired Loans	
	2013	2012	2013	2012
Personal loans	89,667	63,668	95,602	75,398
Lines of credit	11,034	7,686	14,480	8,209
Non-specified loans	84,864	81,307	-	-
Residential mortgages	6,509	9,306	670,943	379,380
	192,074	161,967	781,025	462,987

Movement in individual specific provision and collective provision for impairment:

2013	Specific Provision	Collective Provision	Total
Balance at January 1, 2013	80,660	81,307	161,967
Recoveries of loans previously written off	14,357	-	14,357
Provision charged to net income	132,695	3,557	136,252
	227,712	84,864	312,576
Loans written off	(120,502)	-	(120,502)
Balance at December 31, 2013	107,210	84,864	192,074

7. ALLOWANCE FOR IMPAIRED LOANS (Cont'd)

2012	Specific Provision	Collective Provision	Total
Balance at January 1, 2012	133,109	86,237	219,346
Recoveries of loans previously written off	5,233	-	5,233
Provision charged to net income	69,663	(4,930)	64,733
	208,005	81,307	289,312
Loans written off	(127,345)	-	(127,345)
Balance at December 30, 2012	80,660	81,307	161,967

Key Assumptions in Determining the Allowance for Impaired Loans Collective Provision

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

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

8. PROPERTY, PLANT AND EQUIPMENT

	Land	Building	Leasehold Improvements	Furniture & Fixtures	Computer Equipment	Total	Intangibles
Cost							
Balance at January 1, 2012	437,779	1,867,853	981,449	624,305	1,264,021	5,175,407	-
Additions	-	54,975	-	10,271	111,249	176,495	-
Balance at December 30, 2012	437,779	1,922,828	981,449	634,576	1,375,270	5,351,902	-
Additions	-	74,563	6,780	41,006	314,140	436,489	369,582
Disposals	-	-	-	-	(335,149)	(335,149)	-
Balance at December 31, 2013	437,779	1,997,391	988,229	675,582	1,354,261	5,453,242	369,582
Accumulated Amortization							
Balance at January 1, 2012	-	799,950	198,958	445,723	1,046,300	2,490,931	-
Amortization expense	-	52,391	74,009	39,488	107,807	273,695	-
Balance at December 30, 2012	-	852,341	272,967	485,211	1,154,107	2,764,626	-
Amortization expense	-	56,253	67,810	38,077	118,421	280,561	11,754
Disposals	-	-	-	-	(335,149)	(335,149)	-
Balance at December 31, 2013	-	908,594	340,777	523,288	937,379	2,710,038	11,754
Net book value							
December 31, 2012	437,779	1,070,487	708,482	149,365	221,163	2,587,276	-
December 31, 2013	437,779	1,088,797	647,452	152,294	416,882	2,743,204	357,828

9. MEMBERS' DEPOSITS

	2013	2012
Chequing accounts	13,110,244	11,943,457
Savings accounts	52,367,783	50,786,756
Term deposits	21,356,193	20,913,133
Tax free savings accounts	9,639,943	7,548,366
Registered retirement savings plans	39,846,855	41,283,695
Registered retirement income funds	14,462,621	13,781,717
Accrued interest	601,166	694,362
	151,384,805	146,951,486

Chequing and savings accounts are due on demand.

Term deposits have fixed rates of interest for terms up to five years, or pay a return based on market indexes. Interest can be paid monthly, annually, or upon maturity. At December 31, 2013, the average interest rate on term deposits was 1.81% (1.99% in 2012).

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

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

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

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

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

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

10. MEMBERS' SHARE CAPITAL

As a condition of membership, each member is required to hold a minimum of $25 in membership shares. This capital is of a permanent nature which cannot be withdrawn except upon the death or withdrawal from membership of the member. Any special dividends added to a member's permanent share capital account cannot be withdrawn except on the above conditions. As at December 31, 2013, the credit union had 12,262 members.

11. RESERVES

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

On January 23, 2014, the Board of Directors approved a transfer of $400,000 to this reserve from undivided earnings.

12. CAPITAL MANAGEMENT

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

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

Regulatory capital	**2013**	**2012**
Tier 1 Capital		
Membership shares	1,008,225	1,045,856
Undivided earnings	213,821	217,458
Reserves	9,600,000	9,200,000
Tier 2 Capital		
Collective provision for impaired loans	84,864	81,307
	10,906,910	10,544,621
Percentage of total assets	6.6%	6.6%
Risk weighted equivalent value	75,076,751	69,986,777
Percentage of risk weighted assets	14.5%	15.1%

12. CAPITAL MANAGEMENT (Cont'd)

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

	2013	2012
Cash	2,390,911	4,828,479
Payroll deposits receivable	358,163	39,918
Liquidity deposits with Central 1 Credit Union	9,942,194	9,584,577
Other investments qualifying as liquidity	1,641,304	2,244,371
	14,332,572	16,697,345
% of member deposits	9.51 %	11.42 %

13. INTEREST REVENUE

	2013	2012
Personal loans	1,111,069	994,014
Mortgages	4,780,143	4,740,786
Investments	476,649	702,844
	6,367,861	6,437,644

14. INTEREST EXPENSE

	2013	2012
Demand savings accounts	266,386	254,240
Term deposits	369,627	432,179
Tax free savings accounts	114,640	96,172
Registered retirement savings plans	668,234	785,394
Registered retirement income funds	249,729	284,431
	1,668,616	1,852,416

15. INCOME TAX

The current income tax provision was calculated as follows:

	2013	2012
Income per statement before income taxes	469,385	470,570
Capital cost allowance in excess of amortization	(96,689)	44,938
Adjust allowance for impaired loans to allowance for tax purposes	3,011	(5,738)
Unrealized investment income	(103,368)	(168,418)
Other adjustments	1,340	3,342
Taxable income	273,679	344,694
Tax at prescribed rate of 26.50% (2012 - 26.50%)	72,525	91,344
Small business deduction	30,160	(37,916)
	42,498	53,428

Deferred Tax Expense	**2013**	**2012**
Origination and reversal of temporary differences	30,524	19,364
Reduction in tax rate	-	893
	30,524	20,257

15. INCOME TAX (Cont'd)

The movement in deferred tax liabilities and assets are:

2013	Opening Balance	Recognized in Net Income	Recognized in OCI	Closing Balance
Property, plant and equipment	4,092	14,969	-	19,061
Investments	26,105	16,022	-	42,127
Allowance for impaired loans	(2,510)	(467)	-	(2,977)
Cash flow hedges	17,797	-	(11,976)	5,821
	45,484	30,524	(11,976)	64,032

2012	Opening Balance	Recognized in Net Income	Recognized in OCI	Closing Balance
Property, plant and equipment	10,720	(6,628)	-	4,092
Investments	-	26,105	-	26,105
Allowance for impaired loans	(3,290)	780	-	(2,510)
Cash flow hedges	47,240	-	(29,443)	17,797
	54,670	20,257	(29,443)	45,484

Expected settlement of deferred tax liabilities and assets are:

	2013	2012
Settled within 12 months	6,533	10,393
Settled after more than 12 months	57,499	35,091
	64,032	45,484

16. RELATED PARTY TRANSACTIONS

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

COMPENSATION	**2013**	**2012**
Salaries and other short-term employee benefits	591,518	561,392
Total pension and other post-employment benefits	47,280	87,102
	638,798	648,494

Loans to Key Management Personnel and Directors	**2013**	**2012**
Aggregate value of loans advanced	1,381,565	1,391,914
Interest received on loans advanced	40,811	50,902
Unused value of lines of credit	503,747	675,413

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

Deposits from Key Management Personnel and Directors	**2013**	**2012**
Aggregate value of term and savings deposits	962,860	1,302,195
Total interest paid on term and savings deposits	11,031	21,304

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

Included in board and committee expenses are honoraria totaling $40,032 (2012 - $38,446).

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

	Salary	Value of Benefits
Charlie Collura, CEO	136,937	23,757

17. FINANCIAL INSTRUMENTS

The following table represents the carrying amount by classification.

	2013	2012
Available for Sale:		
Cash	2,390,911	4,828,479
Investments	3,605,607	4,304,432
	5,996,518	9,132,911
Loans and Receivables:		
Investments	11,643,336	11,877,048
Loans	141,378,072	133,527,011
Accounts receivable (other)	381,226	47,951
	153,402,634	145,452,010
Fair Value Through Profit and Loss:		
Investments	631,661	820,549
Derivative assets	811,437	754,101
Derivative liabilities	(811,437)	(754,101)
	631,661	820,549
Cash Flow Hedge:		
Derivative assets	52,657	160,469
Other Liabilities:		
Member deposits	151,384,805	146,951,486
Member shares	1,008,225	1,045,856
Accounts payable	1,216,297	1,077,794
	153,609,327	149,075,136

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

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

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

17. FINANCIAL INSTRUMENTS (Cont'd)

2013	Fair value	Book value	Fair value over (under) book value
Assets			
Investments	11,669,813	11,643,336	26,477
Loans and mortgages	141,540,084	141,378,072	162,012
Liabilities			
Member deposits	151,455,411	151,384,805	70,606

2012	Fair value	Book value	Fair value over (under) book value
Assets			
Investments	12,019,962	11,877,048	142,914
Loans and mortgages	137,567,094	133,527,011	4,040,083
Liabilities			
Member deposits	146,612,044	146,951,486	(339,442)

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

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

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

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

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

17. FINANCIAL INSTRUMENTS (Cont'd)

December 31, 2013 **Financial Instruments** **Measured at Fair Value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and bank	2,390,911	-	-	2,390,911
Other debt instruments	-	2,355,764	-	2,355,764
Central 1 Credit Union - Class A	-	555,958	-	555,958
Central 1 Credit Union - Class E	-	692,400	-	692,400
Other investments	-	1,485	-	1,485
Derivative assets	-	-	864,094	864,094
CUCO Cooperative Association	-	-	631,661	631,661
Derivative liabilities	-	-	811,437	811,437
Total fair value investments	2,390,911	3,605,607	684,318	6,680,836

December 30, 2012 **Financial Instruments** **Measured at Fair Value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and bank	4,828,479	-	-	4,828,479
Other debt instruments	-	3,063,080	-	3,063,080
Central 1 Credit Union - Class A	-	547,467	-	547,467
Central 1 Credit Union - Class E	-	692,400	-	692,400
Other investments	-	1,485	-	1,485
Derivative assets	-	-	914,570	914,570
CUCO Cooperative Association	-	-	820,549	820,549
Derivative liabilities	-	-	754,101	754,101
Total fair value investments	4,828,479	4,304,432	981,018	10,113,929

Reconciliation of Level 3 financial instruments	**2013**	**2012**
Balance beginning of year	981,018	1,079,598
Gains (losses) included in the statement of income as investment income	72,818	187,421
Gains (losses) included in other comprehensive income	(77,263)	(207,776)
Distributions received	(292,256)	(78,225)
Balance, end of year	684,317	981,018

18. RISK MANAGEMENT

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

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

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

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

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

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

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

18. RISK MANAGEMENT (Cont'd)

Currency Risk

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

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

Interest Rate Risk

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

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

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

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

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

Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. The credit union's risk due to changes in interest rates determined that an increase in interest rates of 1% could result in an increase to net income of $ 128,200 while a decrease in interest rate of 1% could result in a decrease to net income of $ 154,170.

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.

18. RISK MANAGEMENT (Cont'd)

2013	**Variable**	**Within 3 months**	**4 to 12 months**	**Greater than 1 year**	**Not rate sensitive**	**Total**
Assets						
Cash and bank	-	-	-	-	2,390,911	2,390,911
effective rate %	-	-	-	-	-	
Loans	71,453,951	2,562,027	4,130,412	63,193,498	-	141,339,888
effective rate %	4.58	4.04	4.48	3.65	-	
Investments	-	3,875,706	3,307,792	6,707,300	1,881,504	15,772,302
effective rate %	-	0.90	1.36	1.82	-	
Liabilities						
Member deposits	64,842,935	11,531,668	24,603,683	33,684,210	16,121,143	150,783,639
effective rate %	0.46	1.62	1.44	1.62	-	

2012	**Variable**	**Within 3 months**	**4 to 12 months**	**Greater than 1 year**	**Not rate sensitive**	**Total**
Assets						
Cash and bank	1,411,311	-	-	-	3,417,168	4,828,479
effective rate %	1.40	-	-	-	-	
Loans	72,036,396	2,202,783	4,962,952	54,294,465	-	133,496,596
effective rate %	4.57	4.72	4.63	3.94	-	
Investments	-	5,391,802	3,437,146	5,999,999	2,061,901	16,890,848
effective rate %	-	0.78	1.05	2.01	-	
Liabilities						
Member deposits	68,893,950	11,179,617	23,614,256	27,694,062	14,875,239	146,257,124
effective rate %	0.45	1.93	1.76	2.15	-	

19. COMMITMENTS

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

Mortgages
Outstanding commitments for future advances on mortgages are $1,343,355 (2012 - $Nil).

Syndication Loans
Outstanding commitments for future advances on syndicated loans are $3,830,450 (2012 - $2,802,651)

Credit Lines
Unused lines of credit available to members are $28,321,364 (2012 - $23,310,323).

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

2014 - 452,804 2015 - 457,489 2016 - 437,416 2017 - 289,567 2018 - 202,440