MOMENTUM CREDIT UNION LIMITED

FINANCIAL STATEMENTS

For the year ended December 31, 2016

Millards
Chartered Professional Accountants

MOMENTUM CREDIT UNION LIMITED

For the year ended December 31, 2016

INDEX

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Chartered Professional Accountants

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INDEPENDENT AUDITORS' REPORT

To the Members of Momentum Credit Union Limited

We have audited the accompanying financial statements of Momentum Credit Union Limited, which comprise the statement of financial position as at December 31, 2016, and the statements of comprehensive income, changes in members' equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Millard, Rouse & Rosebrugh LLP

February 22, 2017
Brantford, Ontario

CHARTERED PROFESSIONAL ACCOUNTANTS
Licensed Public Accountants

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

MOMENTUM CREDIT UNION LIMITED

STATEMENT OF FINANCIAL POSITION

As at December 31	2016	2015
ASSETS		
Cash and bank	10,703,018	14,912,892
Investments (Note 4)	21,836,955	19,301,225
Derivatives (Note 5)	39,578	18,121
Loans to members (Note 6)	146,365,371	125,726,938
Accounts receivable	4,383	164,015
Prepaid expenses	471,030	112,663
Income taxes recoverable	33,911	33,911
Property, plant and equipment (Note 8)	3,430,985	3,500,641
Intangible assets (Note 8)	452,303	506,580
Goodwill	996,473	996,473
Deferred income taxes (Note 17)	101,573	127,496
Deferred pension costs (Note 9)	6,100	14,100
	184,441,680	165,415,055
LIABILITIES		
Term loans (Note 10)	11,000,000	-
Members' deposits (Note 11)	159,114,917	151,042,038
Accounts payable and accrued liabilities	460,959	378,079
Accrued dividends and rebates	24,102	27,221
Derivatives (Note 5)	45,914	18,121
Obligation for post-retirement benefits (Note 9)	1,419,800	1,246,000
Members' share capital (Note 12)	3,791,131	4,179,745
	175,856,823	156,891,204
MEMBERS' EQUITY		
Undivided Earnings	239,733	(1,786)
Accumulated Other Comprehensive Income	(674,669)	(494,156)
Reserves (Note 13)	5,957,523	5,957,523
Contributed Surplus	3,062,270	3,062,270
	8,584,857	8,523,851
	184,441,680	165,415,055

Approved on behalf of the Board of Directors:

.... *Director*

.... *Director*

See accompanying notes

MOMENTUM CREDIT UNION LIMITED

STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31	2016	2015
Interest Revenue (Note 15)	5,438,349	5,676,989
Interest Expense (Note 16)	1,968,866	2,170,201
Interest Margin	3,469,483	3,506,788
Other income	944,493	899,691
Income Before Operating Expenses	4,413,976	4,406,479
Operating Expenses		
Employee salaries and benefits	2,396,794	2,466,405
Data processing	385,165	380,834
Administration	531,745	613,207
Insurance	230,649	234,095
Collection and bad debts	79,459	77,363
Occupancy	198,235	194,130
Staff and director expenses	80,937	92,831
Depreciation	191,062	179,766
	4,094,046	4,238,631
Operating Income	319,930	167,848
Dividends and rebates	(24,073)	(27,209)
Income Before Income Taxes	295,857	140,639
Income taxes - deferred (Note 17)	54,338	28,232
Net Income	241,519	112,407
Other Comprehensive Income (Loss), Net of Income Taxes		
Change in unrealized gains (loss) on derivative instruments designated as cash flow hedges	(5,428)	-
Tax effect of unrealized gains on cash flow hedges	814	-
Actuarial gains and losses on post-retirement benefits	(203,500)	186,200
Tax effect of actuarial gains and losses	27,601	(28,861)
Other Comprehensive Income (Loss) for the Year	(180,513)	157,339
Comprehensive Income (Loss) for the Year	61,006	269,746

See accompanying notes

MOMENTUM CREDIT UNION LIMITED

STATEMENT OF CHANGES IN MEMBERS' EQUITY

	Accumulated Other Comprehensive Income		Contributed		Undivided	
	Post-retirement benefits	Cash Flow Hedge	Surplus	Reserves	Earning	Total
Balance at January 1, 2015	(651,495)	-	3,062,270	5,957,523	(114,193)	8,254,105
Net Income	-	-			112,407	112,407
Actuarial gains (losses) on pension and other post-retirement benefits	157,339	-	-	-	-	157,339
Balance at December 31, 2015	(494,156)	-	3,062,270	5,957,523	(1,786)	8,523,851
Net Income	-	-			241,519	241,519
Actuarial gains (losses) on pension and other post-retirement benefits	(175,899)	-	-	-	-	(175,899)
Change in unrealized gains / (losses) on cash flow hedges	-	(4,614)	-	-	-	(4,614)
Balance at December 31, 2016	(670,055)	(4,614)	3,062,270	5,957,523	239,733	8,584,857

MOMENTUM CREDIT UNION LIMITED

STATEMENT OF CASH FLOWS

For the year ended December 31	2016	2015
Cash Flows From Operating Activities		
Net Income	241,519	112,407
Adjustments for:		
Interest revenue	(5,438,349)	(5,676,989)
Interest expense	1,968,866	2,170,201
Interest received on member loans	4,939,571	5,129,972
Interest received on investments	525,825	571,833
Interest paid on member deposits	(2,075,538)	(2,349,466)
Depreciation	191,062	179,766
Deferred income taxes	54,338	28,232
Net change in non-cash working capital balances related to operations	(139,766)	(111,679)
	267,528	54,277
Cash Flows From Financing Activities		
Term loans	11,000,000	-
Member deposits and shares	7,790,937	466,307
	18,790,937	466,307
Cash Flows From Investing Activities		
Purchase of property, plant and equipment and intangibles	(67,129)	(186,862)
Loans and mortgages to members	(20,606,953)	1,126,910
Investments	(2,594,257)	443,007
	(23,268,339)	1,383,055
Net Decrease in Cash and Cash Equivalents	(4,209,874)	1,903,639
Opening Cash and Cash Equivalents	14,912,892	13,009,253
Closing Cash and Cash Equivalents	10,703,018	14,912,892

See accompanying notes

1. NATURE OF OPERATIONS

Reporting Entity

Momentum 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 698 King Street East, Hamilton, Ontario.

These financial statements have been authorized for issue by the Board of Directors on February 22, 2017.

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 available-for-sale and fair-value-through-profit-and-loss 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 and Concentra Financial Investments

Deposits with Central 1 and Concentra Financial 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.

Central 1 Credit Union and Concentra Financial Equity Instruments

Equity instruments of Central 1 Credit Union and Concentra Financial 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.

Other Debt and Equity Instruments

Other debt and equity instruments are designated as fair value through profit and loss and are measured at fair value. Changes in fair value are recorded as investment income included in net income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Building	40 years straight line
Paved parking lots	4 years straight line
Furniture and fixtures	20% declining balance
Computer equipment	5 years straight line
ATM machine	10 years straight line

In the year of acquisition or disposal, depreciation is prorated based on the number of months in use.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill resulted from the amalgamation of Hamilton Community Credit Union and Twin Oak Credit Union. The carrying value of goodwill is valued annually to determine whether there has been a loss in value. This valuation is carried out by comparing the undiscounted existing and expected cash flows from operations with the unamortized balance of the excess at the valuation date.

Intangible Assets

Intangible assets consist of computer software, rights for the use of software, and costs incurred to acquire those rights. Intangible assets are initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment (losses). Amortization is provided using the straight-line basis over 10 years.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Revenue Recognition
Interest on loans and investments is recognized as earned at the end of each month and when ultimate collection is reasonably assured. Other revenue consists of service charges and commissions, recognized as earned when the associated services are rendered.

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

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

Employee Benefits
The Credit Union's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted. The Credit Union determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset).

The discount rate is the yield at the reporting date on high quality corporate bonds that have maturity dates approximating the terms of the Credit Union's obligations and that are denominated in the currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Credit Union, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to the plan.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Credit Union recognizes them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standard, 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, 2017 or later periods that the Credit Union has decided not to early adopt. The standards, amendments and interpretations that will be relevant to the Credit Union are:

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

None of the other new standards, interpretations or amendments, which are effective for the Credit Union's accounting periods beginning after January 1, 2017 and which have not been adopted early, are expected to impact on the Credit Union's future financial statements.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

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

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

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

Employee Future Benefits
The Credit Union sponsors defined benefit plans providing pension and other post-employment benefits to covered employees. The determination of expense and obligations associated with employee future benefits requires the use of assumptions such as the expected return on assets available to fund pension obligations, the discount rate to measure obligations, the expected mortality, the expected rate of future compensation and the expected healthcare cost trend rate. Because the determination of the cost and obligations associated with employee future benefits requires the use of various assumptions, there is measurement uncertainty inherent in the actuarial valuation process. Actual results will differ from results which are estimated based on assumptions. See Note 9 for further details.

4. INVESTMENTS

	2016	2015
Central 1 Liquidity reserve deposit	10,509,120	10,254,903
Central 1 term deposits	5,000,000	-
Concentra Financial mortgage investment pool	149,221	293,499
Other deposits	2,152,000	4,671,000
Accrued interest	204,953	263,480
	18,015,294	15,482,882
Equity Instruments		
Central 1 Credit Union - Class A	650,275	629,094
Central 1 Credit Union - Class E	748,000	748,000
Concentra Financial - Class D	1,000,000	1,000,000
CUCO Cooperative Association	406,206	459,080
Co-Operators Group	42,350	42,350
Other investments	974,830	939,819
Total Equity instruments	3,821,661	3,818,343
	21,836,955	19,301,225

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 month. 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 Central 1's 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.

Concentra Financial Class D shares are redeemable at $25 per share. There is no separately quoted market value for these shares. The fair value is determined to equal the redemption value.

4. INVESTMENTS (continued)

CUCO Cooperative Association

In 2008, as a condition of the formation of Central 1 Credit Union, the Credit Union was required to invest $1,045,119 in ABCP 2008 Limited Partnership units. On August 17, 2011, Credit Union Central of Ontario became CUCO Cooperative Association ("CUCO Co-op"). On August 31, 2011, CUCO Co-op purchased all of the assets of ABCP 2008 Limited Partnership in exchange for shares of CUCO Co-op. On September 2, 2011, ABCP 2008 Limited Partnership distributed to each credit union such credit union's proportionate share of CUCO Co-op Class B Investment Shares. The value previously held in the form of a credit union's LP units was effectively transferred to its new CUCO Co-op Class B Investment Shares and the LP units have no value. As of September 2, 2011, the Credit Union received 272,956,019 Class B Investment Shares, which was 0.7825% 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 Co-op using valuation techniques based on discounted expected future cash flows.

5. DERIVATIVES

The Credit Union has outstanding $613,605 (2015 - $528,694) 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 $39,578 (2015 - $18,121).

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, 2016, the Credit Union had entered into such contracts on index linked term deposits for a total of $613,605. 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, 2016, the Credit Union was party to two such agreement with Central 1 Credit Union. The agreement represents a notional principal amount of $4,000,000 ($Nil in 2015), maturing in November 2017 and January 2018.

5. DERIVATIVES (continued)

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 quarterly, 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 of 0.86% and 0.805% and is paying a variable rate as at December 31, 2016 of 0.897% and 0.904%.

	2016	2015
Derivative Assets		
Index linked hedge receivable from Central 1	39,578	18,121
Derivative Liabilities		
Interest rate swaps	6,336	-
Index linked derivatives payable on member deposits	39,578	18,121
	45,914	18,121

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 cash flow hedge against interest rate fluctuations by improving the Credit Union's matching of its asset and liability positions.

6. LOANS TO MEMBERS

	2016	2015
Personal loans	7,163,198	8,925,105
Residential mortgages	112,152,123	96,453,983
Commercial loans	4,910,162	3,205,098
Syndicated loans	22,064,595	17,108,016
Accrued interest	223,894	192,414
	146,513,972	125,884,616
Less: allowance for impaired loans (Note 7)	148,601	157,678
Total Loans Receivable	146,365,371	125,726,938

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 7.90% at December 31, 2016 (2015 - 7.87%).

6. LOANS TO MEMBERS (continued)

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 3.43% at December 31, 2016 (2015 - 3.59%).

Commercial and syndicated loans consist of commercial lines of credit and mortgages to individuals, partnerships and corporations and have various repayment terms. They are secured by various types of collateral including mortgages on real property, general security agreements, and personal guarantees. These loans have fixed or variable interest rates with an average rate of 4.53% at December 31, 2016 (2015 - 4.68%).

Credit Quality of Loans

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

	2016	**2015**
Personal loans partially secured by property	7,017,531	8,925,105
Residential mortgages	109,071,673	88,043,568
Residential mortgages insured by government	2,367,154	2,928,947
Mortgages insured by other insurer	2,879,748	5,323,790
Loans secured by commercial property	24,808,304	20,313,114
	146,144,410	125,534,524

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:

As at December 31, 2016 there are 20 loans (2015 - 5 loans) that each individually exceed 10% of members' equity. The combined total of these loans is $37,155,665 (2015 - $12,098,839).

	2016	**2015**
Syndicated commercial loans	18,721,504	12,098,839
Residential mortgages	18,434,161	-
	37,155,665	12,098,839

All member loans are with members located in Ontario.

7. ALLOWANCE FOR IMPAIRED LOANS

Total allowance for impaired loan provision comprises:

	2016	2015
Collective provision	48,317	38,002
Individual specific provision	100,284	119,676
Total provision	148,601	157,678

The allowance for impaired loans is broken down as follows:

	Allowance for Impaired Loans		Aggregate Impaired Loans	
	2016	2015	2016	2015
Personal loans	73,828	68,511	85,535	69,357
Lines of credit	26,456	51,165	26,456	52,362
Non-specified loans	48,317	38,002	-	-
Mortgages	-	-	76,784	-
	148,601	157,678	188,775	121,719

Movement in individual specific provision and collective provision for impairment:

2016	Specific Provision	Collective Provision	Total
Balance at January 1, 2016	119,676	38,002	157,678
Recoveries of loans previously written off	62,722	-	62,722
Provision charged to net income	83,089	10,315	93,404
	265,487	48,317	313,804
Loans written off	(165,203)	-	(165,203)
Balance at December 31, 2016	100,284	48,317	148,601

7. ALLOWANCE FOR IMPAIRED LOANS (continued)

2015	Specific Provision	Collective Provision	Total
Balance at January 1, 2015	98,206	49,061	147,267
Recoveries of loans previously written off	41,881	-	41,881
Provision charged to net income	123,972	(11,059)	112,913
	264,059	38,002	302,061
Loans written off	(144,383)	-	(144,383)
Balance at December 31, 2015	119,676	38,002	157,678

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.

MOMENTUM CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2016

8. PROPERTY, PLANT AND EQUIPMENT	Land	Building	Furnit. & Fixtures	Computer Equipment	ATM	Total	Intangibles
Cost							
Balance at January 1, 2015	1,044,882	2,716,469	586,738	769,711	102,919	5,220,719	379,348
Additions	-	-	2,242	21,201	-	23,443	163,416
Balance at January 1, 2016	1,044,882	2,716,469	588,980	790,912	102,919	5,244,162	542,764
Additions	-	49,616	337	17,176	-	67,129	-
Balance at December 31, 2016	1,044,882	2,766,085	589,317	808,088	102,919	5,311,291	542,764
Accumulated Depreciation							
Balance at January 1, 2015	-	396,217	425,993	722,050	55,682	1,599,942	-
Depreciation	-	94,130	18,678	20,480	10,291	143,579	36,184
Balance at January 1, 2016	-	490,347	444,671	742,530	65,973	1,743,521	36,184
Depreciation	-	97,317	8,261	20,916	10,291	136,785	54,277
Balance at December 31, 2016	-	587,664	452,932	763,446	76,264	1,880,306	90,461
Net Book Value							
January 1, 2016	1,044,882	2,226,122	144,309	48,382	36,946	3,500,641	506,580
December 31, 2016	1,044,882	2,178,421	136,385	44,642	26,655	3,430,985	452,303

9. EMPLOYEE BENEFITS

The Credit Union sponsors a registered pension plan that has a defined benefit component and a defined contribution component. The defined benefit component is non-contributory and was closed to new participants on January 1, 2009. The plan was closed to existing participants on March 31, 2014. The Credit Union makes contributions to the fund, based on periodic valuation reports prepared by an independent actuary, in accordance with regulatory requirements.

The Credit Union also pays certain medical and dental benefits on behalf of its eligible retired employees. Certain active employees prior to 2009 who retire from full-time employment after the attainment of age 55 years and completion of ten years of continuous service, will qualify for post-retirement medical and dental benefits under current provisions. Employees after 2009 who retire from full-time employment after the attainment of age 55 years and completion of 20 years of continuous service, will qualify for reimbursement of approved expenses to a maximum of $1,500 per year. The Credit Union recognizes these post-employment costs in the period in which employees' service was rendered. There are no assets in this plan and therefore this plan is unfunded.

The changes in these defined benefit plans during the year are as follows:

Reconciliation of Funded Status	**Pension Plans**		**Post Retirement Benefits**		**Total**	**Total**
As of December 31	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Fair value of plan assets	2,475,400	2,507,100	-	-	2,475,400	2,507,100
Present value of plan obligations	(2,469,300)	(2,493,000)	(1,419,800)	(1,246,000)	(3,889,100)	(3,739,000)
Net plan obligations	6,100	14,100	(1,419,800)	(1,246,000)	(1,413,700)	(1,231,900)

Movement in the present value of defined benefit obligations

	Pension Plans		**Post Retirement Benefits**		**Total**	**Total**
Actuarial Plan Obligation	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Opening defined benefit obligation	2,493,000	2,507,100	1,246,000	1,390,500	3,739,000	3,897,600
Current service cost	-	-	7,600	6,300	7,600	6,300
Interest cost	96,500	98,000	48,900	54,600	145,400	152,600
Actuarial (gain) loss	42,300	-	181,100	(142,500)	223,400	(142,500)
Benefits paid	(162,500)	(112,100)	(63,800)	(62,900)	(226,300)	(175,000)
Closing defined benefit obligation	2,469,300	2,493,000	1,419,800	1,246,000	3,889,100	3,739,000

9. EMPLOYEE BENEFITS (continued)

Movement in the fair value of plan assets

Fair Value of Plan Assets	**Pension Plans 2016**	**Pension Plans 2015**	**Post Retirement Benefits 2016**	**Post Retirement Benefits 2015**	**Total 2016**	**Total 2015**
Opening fair value of plan assets	2,507,100	2,478,600	-	-	2,507,100	2,478,600
Expected return	97,300	96,900	-	-	97,300	96,900
Actuarial gains (losses)	19,900	43,700	-	-	19,900	43,700
Contributions by employer	13,600	-	-	-	13,600	-
Benefits paid	(162,500)	(112,100)	-	-	(162,500)	(112,100)
Closing fair value of plan assets	2,475,400	2,507,100	-	-	2,475,400	2,507,100

Assets of the defined benefit pension plan are held by CUMIS and invested in a Balanced Core Fund. This fund maintained investments in Canadian equities (29.2%), U.S. equities (21.8%), International equities (10.4%), bonds (35.5%), and cash equivalents (3.1%).

Expenses recognized in profit or loss	**Pension Plans 2016**	**Pension Plans 2015**	**Post Retirement Benefits 2016**	**Post Retirement Benefits 2015**	**Total 2016**	**Total 2015**
Current service cost	-	-	7,600	6,300	7,600	6,300
Interest cost	96,500	98,000	48,900	54,600	145,400	152,600
Defined benefit plan expense	96,500	98,000	56,500	60,900	153,000	158,900

These plans expose the Credit Union to actuarial risks, such as longevity risk, interest rate risk, an market (investment) risk.

Contributions

In 2017, the Credit Union expects to contribute $70,200 to the Defined Benefit Plan in accordance with normal funding policy. Additionally, the Credit Union does not anticipate having to make material special contributions to its pension plans in 2017.

9. EMPLOYEE BENEFITS (continued)

Actuarial Assumptions
The weighted average actuarial assumptions were as follows:

	Pension Plans		Post Retirement Benefits	
	2016	**2015**	**2016**	**2015**
Discount rate	3.80 %	4.00 %	3.80 %	4.00 %
Rate of increase in salaries	- %	- %	2.00 %	2.00 %
Rate of medical cost escalation	- %	- %	5.00 %	5.00 %
Rate of dental cost escalation	- %	- %	3.00 %	3.00 %
Expected rate of return on assets	3.80 %	4.00 %	- %	- %

Sensitivity Analysis
A 1% increase or decrease in the discount rate would cause the pension benefit obligation to increase or decrease by $306,200, and the post-retirement benefits to increase or decrease by $351,500. Changes in the salary rate growth will not impact the pension benefit obligation as the pension has been closed.

Medical Cost Trend
The medical cost trend is based on the Credit Union's actuarial medical claims experience and future projections of medical costs. The average medical cost trend rate used was 5% in 2016. The dental cost is expected to stay static at 3%. A 1% increase or decrease in the trend rate would have resulted in an increase or decrease in the benefit obligation for post retirement benefits of approximately $140,000 and $127,400 respectively at December 31, 2016.

10. TERM LOANS

The Credit Union has authorized line of credit and term loan facilities with Central 1 Credit Union totaling $14,000,000. Security given is a general security agreement covering all assets of the Credit Union.

Term loans in existence at year end are as follows:	**2016**	**2015**
Term loan with interest at 1.26%, maturing January 5, 2017	4,000,000	-
Term loan with interest at 1.26%, maturing January 6, 2017	3,000,000	-
Term loan with interest at 1.41%, maturing January 19, 2017	2,000,000	-
Term loan with interest at 1.44%, maturing March 2, 2017	2,000,000	-
	11,000,000	-

11. MEMBER DEPOSITS

	2016	2015
Chequing accounts	37,594,588	37,637,094
Savings accounts	23,151,368	20,995,988
Term deposits	38,151,318	31,670,376
Tax free savings accounts	9,993,903	8,932,025
Registered retirement savings plans	32,277,112	34,734,500
Registered retirement income funds	16,963,928	15,982,683
Accrued interest	982,700	1,089,372
	159,114,917	151,042,038

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, 2016, the average interest rate on term deposits was 2.06% (2015 - 2.19%).

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.

The total value of individual or related groups of members deposits which exceed 1% of member deposits is $3,666,186 in 2016 (2015 - $3,551,734). All member deposits are with members located in Ontario.

12. MEMBERS' SHARE CAPITAL

	2016	2015
Class A shares	1,371,356	1,501,863
Class B shares	2,375,224	2,627,999
Membership shares, voting	44,551	49,883
	3,791,131	4,179,745

Class A shares are non-cumulative, non-voting and non-participating and rank in priority to Class B shares and membership shares. Class A shares are redeemable in any fiscal year after the first five years subsequent to issuance, to the extent of 10% of the total Class A shares outstanding at the end of the previous fiscal year, or at any time after the death of the shareholder.

Class B shares are non-cumulative, non-voting shares ranking in priority to membership shares. Class B shares are redeemable at the issue price after the first five years subsequent to issuance. Redemption in any fiscal year may not exceed 10% of the Class B shares outstanding at the end of the previous fiscal year.

Members are required to own one membership share with a par value of $5 per share. Amounts paid for shares may be withdrawn upon termination of membership or after the death of the shareholder. As at December 31, 2016 the Credit Union had 11,524 members.

13. RESERVES

This amount is set aside in order to meet regulatory capital requirements (see Note 14) and to provide adequate operating capital.

14. 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	**2016**	**2015**
Tier 1 Capital		
Membership shares	3,525,778	4,038,749
Undivided earnings	239,733	(1,786)
Reserves	5,957,523	5,957,523
Contributed surplus	3,062,270	3,062,270
Goodwill	(996,473)	(996,473)
Deferred pension costs	(6,100)	(14,100)
Tier 2 Capital		
Redeemable portion of membership shares	265,353	140,996
Actuarial losses in Accumulated Other Comprehensive Income	(670,055)	(494,156)
General allowance for doubtful loans	48,317	38,002
	11,426,346	11,731,025
Percentage of total assets	6.23%	7.14%
Risk weighted equivalent value	87,793,615	77,089,865
Percentage of risk weighted assets	13.02%	15.22%

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:

	2016	**2015**
Cash	10,703,018	14,912,892
Liquidity deposits with Central 1 Credit Union	10,509,120	10,254,903
	21,212,138	25,167,795
% of member deposits and borrowings	12.54%	16.78%

15. INTEREST REVENUE

	2016	2015
Personal loans	649,677	779,844
Mortgages	3,470,388	3,683,093
Commercial and syndicated loans	850,986	709,940
Investments	467,298	504,112
	5,438,349	5,676,989

16. INTEREST EXPENSE

	2016	2015
Chequing and savings accounts	205,625	195,876
Term deposits	669,358	839,383
Tax free savings accounts	145,536	132,344
Registered retirement savings plans	632,206	667,066
Registered retirement income funds	316,141	335,532
	1,968,866	2,170,201

17. INCOME TAX

	2016	2015
The income tax provision was calculated as follows:		
Income per statement before income taxes	295,857	140,639
Capital cost allowance in excess of depreciation	(154,440)	(111,396)
Adjust allowance for doubtful loans to allowance for tax purposes	1,732	42,543
Pension and post-retirement benefits	(21,700)	(60,900)
Unrealized investment income	(8,943)	(27,540)
Other adjustments	(60,000)	(45,202)
Taxable income (loss)	52,506	(61,856)
Tax at prescribed rate of 15.00% (2015 - 15.50%)	7,876	-
Utilization of prior year losses	(7,876)	-
	-	-

17. INCOME TAX (continued)

Deferred Tax Expense	**2016**	**2015**
Origination and reversal of temporary differences	54,167	28,232
Reduction in tax rate	171	-
Total income tax expense (recovery)	54,338	28,232

The movement in deferred tax liabilities and assets are:

2016	**Opening Balance**	**Recognized in Income**	**Recognized in OCI**	**Closing Balance**
Investments	55,287	(443)	-	54,844
Derivatives	-	-	(814)	(814)
Loans to members	(2,444)	215	-	(2,229)
Property, plant and equipment	85,975	20,393	-	106,368
Defined benefit plans	(218,844)	16,390	(27,601)	(230,055)
Tax losses available	(47,470)	17,783	-	(29,687)
	(127,496)	54,338	(28,415)	(101,573)

2015	**Opening Balance**	**Recognized in Income**	**Recognized in OCI**	**Closing Balance**
Investments	51,018	4,269	-	55,287
Derivatives	-	-	-	-
Loans to members	(2,283)	(161)	-	(2,444)
Property, plant and equipment	68,708	17,267	-	85,975
Intangible assets	-	-	-	-
Member deposits	(7,006)	7,006	-	-
Defined benefit plans	(257,144)	9,439	28,861	(218,844)
Tax losses available	(37,882)	(9,588)	-	(47,470)
	(184,589)	28,232	28,861	(127,496)

Expected settlement of deferred tax liabilities and assets are:

	2016	**2015**
Settled within 12 months	32,552	30,119
Settled after more than 12 months	(134,125)	(157,615)
	(101,573)	(127,496)

18. 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	**2016**	**2015**
Salaries and other short-term employee benefits	687,335	569,318
Total pension and other post-employment benefits	30,008	23,802
	717,343	593,120

Loans to Key Management Personnel and Directors	**2016**	**2015**
Aggregate value of loans advanced	1,390,142	1,656,440
Interest received on loans advanced	38,790	44,751
Total value of lines of credit advanced	1,364,630	593,353
Interest received on lines of credit advanced	24,187	16,703
Unused value of lines of credit	287,191	131,647

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	**2016**	**2015**
Aggregate value of term and savings deposits	391,598	201,672
Total interest paid on term and savings deposits	3,007	2,697

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 staff and director expenses are honoraria totaling $52,389 ($54,099 - 2015).

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	**Variable Compensation**	**Value of Benefits**
Malcolm Stoffman, CEO	169,385	19,332	10,750

19. FINANCIAL INSTRUMENTS

The following table represents the carrying amount by classification.

	2016	2015
Available-for-Sale:		
Cash	10,703,018	14,912,892
Investments	2,398,275	2,377,094
	13,101,293	17,289,986
Loans and Receivables:		
Investments	15,863,294	10,811,882
Loans	146,365,371	125,726,938
Accounts receivable (other)	4,383	164,015
	162,233,048	136,702,835
Fair Value Through Profit and Loss:		
Investments	3,575,386	6,112,249
Derivative assets	39,578	18,121
Derivative liabilities	(39,578)	(18,121)
	3,575,386	6,112,249
Cash Flow Hedge:		
Derivative liabilitiess	(6,336)	-
Other Liabilities:		
Member deposits	159,114,917	151,042,038
Member shares	3,791,131	4,179,745
Accounts payable	460,959	378,079
	163,367,007	155,599,862

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 deferred income taxes, are also 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 repriced 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.

19. FINANCIAL INSTRUMENTS (continued)

December 31, 2016	Fair Value	Book Value	Fair Value Over (Under) Book Value
Assets			
Central 1 liquidity reserve	10,587,645	10,509,120	78,525
Central 1 term deposits	5,046,590	5,000,000	46,590
Other investments	149,221	149,221	-
Loans and mortgages	147,222,081	146,513,972	708,109
Liabilities			
Member deposits	159,599,831	159,114,917	484,914

December 31, 2015	Fair Value	Book Value	Fair Value Over (Under) Book Value
Assets			
Central 1 liquidity reserve	10,328,356	10,254,903	73,453
Other investments	293,499	293,499	-
Loans and mortgages	126,482,220	125,884,616	597,604
Liabilities			
Member deposits	151,590,754	151,042,038	548,716

Financial Instruments Measured At Fair Value

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 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).

19. FINANCIAL INSTRUMENTS (continued)

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.

December 31, 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and bank	10,703,018	-	-	10,703,018
Marketable deposits	-	2,152,000	-	2,152,000
Derivatives	-	-	(6,336)	(6,336)
Equity investments	-	3,415,455	406,206	3,821,661
Total fair value investments	10,703,018	5,567,455	399,870	16,670,343

December 31, 2015	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and bank	14,912,892	-	-	14,912,892
Marketable deposits	-	4,671,000	-	4,671,000
Equity investments	-	3,359,263	459,080	3,818,343
Total fair value investments	14,912,892	8,030,263	459,080	23,402,235

Reconciliation of Level 3 financial instruments	**2016**	**2015**
Balance January 1	459,080	431,540
Gains (losses) included in the statement of income as investment income	8,942	27,540
Gains (losses) included in Other Comprehensive Income	(6,336)	-
Distributions received	(61,816)	-
Balance December 31	399,870	459,080

20. 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 reports, at least quarterly, from senior 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
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 $50,000. 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, Oakville, and Brampton, Ontario. Therefore, the Credit Union is exposed to the risks in reduction of the loan to valuation ratio (LVR) cover should the property market be subject to a decline. The risk of (losses) from loans undertaken is primarily reduced by the nature and quality of the security taken.

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

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

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

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

20. RISK MANAGEMENT (continued)

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 to a maximum net open position of $300,000 in that same currency in accordance with its investment policy. 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.

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.

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 0.5% could result in a increase to net income of $81,000 while a decrease in interest rate of 0.5% could result in an increase to net income of $55,000.

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

2016

	Variable	Within 3 months	4 to 12 months	Greater than 1 year	Not rate sensitive	Total
Assets						
Cash and bank	9,643,581	-	-	-	1,082,437	10,726,018
effective rate %	0.90	-	-	-	-	
Loans	50,275,835	6,341,927	25,244,335	64,651,875	-	146,513,972
effective rate %	4.37	3.35	3.44	3.55	-	
Investments	-	5,713,270	2,152,000	9,945,071	3,821,661	21,632,002
effective rate %	-	1.15	2.19	1.15	-	
Liabilities						
Member deposits	70,996,926	15,241,473	38,154,092	34,874,770	-	159,267,261
effective rate %	0.46	1.72	1.84	2.14	-	

20. RISK MANAGEMENT (continued)

	2015					
	Variable	**Within 3 months**	**4 to 12 months**	**Greater than 1 year**	**Not rate sensitive**	**Total**
Assets						
Cash and bank	13,439,457	-	-	-	1,473,435	14,912,892
effective rate %	0.90	-	-	-	-	
Loans	55,017,165	6,114,950	18,080,422	46,672,079	-	125,884,616
effective rate %	4.29	3.47	3.88	3.89	-	
Investments	6,300,000	1,500,000	2,728,053	4,691,349	3,818,343	19,037,745
effective rate %	0.86	1.87	1.75	1.81	-	
Liabilities						
Member deposits	67,523,892	14,226,128	34,071,054	35,220,964	-	151,042,038
effective rate %	0.52	1.70	1.93	2.23	-	

21. COMMITMENTS

The Credit Union has an authorized line of credit with Central 1 Credit Union totaling $14,000,000. Security given is a general security agreement covering all assets of the Credit Union.

Mortgages and Loans
Outstanding commitments for future advances on mortgages and loans are $7,812,478 (2015 - $250,312).

Credit Lines
Unused lines of credit available to members are $22,854,851 (2015 - $24,640,191).

Credit Letters
Outstanding letters of credit are $324,324 (2015 - $Nil).

The Credit Union's obligations under operating leases for its banking system and other contracts requires monthly minimum payments of $19,353.