

CREDIT UNION
DEPOSIT GUARANTEE CORPORATION

**Protecting Credit Union
Member Deposits for Over 30 Years**



ANNUAL BUSINESS
REPORT
2016

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CHAIRPERSON'S REPORT

On behalf of the Board of Directors of the Credit Union Deposit Guarantee Corporation (the Corporation) I am pleased to report on the results of the Business Plan of the Corporation for the calendar year ended 2016.

The mandate of the Credit Union Deposit Guarantee Corporation is to protect the qualifying investments of credit union members. The Corporation facilitates the financial stability of the credit union system by monitoring credit unions to ensure they comply with legislation and exercise sound business practices.

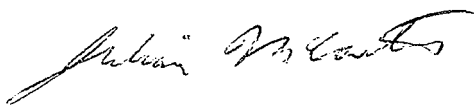
The Board of the Corporation attended twelve meetings during 2016: five regular meetings, six meetings with boards of credit unions, and a meeting with credit union board chairs. Individual directors of the Corporation also attended eight annual general meetings of credit unions.

The Corporation continued to support the professional development of its directors. During the year, several directors of the Corporation attended a national meeting of the Credit Union Prudential Supervisors Association (CUPSA), the Atlantic Credit Union Prudential Supervisors Association, the International Credit Union Regulators Network, the Newfoundland and Labrador Credit Union Directors Conference and the World Credit Union Conference.

The Board of the Corporation acknowledges it is accountable for the actual results reported. This report provides an overview of the Corporation and results achieved for 2016.

On behalf of the Board of the Corporation, I would like to thank the credit unions for the excellent cooperation received during the past year. I would also like to thank the directors, management and staff of the Corporation for their dedication and support.

On behalf of the Board of Directors,



JULIAN MCCARTHY
Chair

PUBLIC BODY OVERVIEW

Vision

Newfoundland and Labradorians have access to a credit union system that is strong, stable and successful.

Mission

By December 31, 2016, the Credit Union Deposit Guarantee Corporation will have improved the awareness of credit unions, directors, employees and the general public of its legislative responsibilities and the superior deposit protection it offers in support of increased confidence in the credit union system and member growth.

Mandate

The mandate of the Credit Union Deposit Guarantee Corporation is informed through Section 134 of the *Credit Union Act, 2009* as contained in Appendix A. Its mandate is to protect the qualifying investments of all credit union members. The Corporation facilitates the financial stability of the credit union system by requiring credit unions to comply with legislation and exercise sound business practices.

Lines of Business

The Credit Union Deposit Guarantee Corporation provides the following lines of business to its primary clients:

1. Regulation of Credit Unions
2. Deposit Insurance
3. Stabilization

Regulation of Credit Unions

The Corporation regulates credit unions through its examination, monitoring and enforcement activities.

Examination

Every two years, or more often if required, the Corporation examines credit unions for compliance with legislation and sound business practices.

The Corporation also performs monthly desk audits using an inquiry program accessing the credit union's on-line data base which identifies any potential high risk transactions which are investigated.

Monitoring

Monthly, quarterly and annually, the Corporation receives financial statements and other regulatory reports from credit unions which are reviewed and, if required, remedial action is taken. Annually the Corporation also reviews independent audited statements of credit unions prepared by accountants licensed under the *Chartered Professional Accountants and Public Accounts Act*.

PUBLIC BODY OVERVIEW (CONTINUED...)

Enforcement

Credit Unions who remain non-compliant are assessed fines and penalties pursuant to legislation and/or are placed under supervision by the Corporation.

Deposit Insurance

The Corporation provides deposit insurance on deposits of credit union members equal to a maximum \$250,000 per insured deposit. There are six insured deposits, including:

- Basic deposits
- Joint deposits
- Registered Retirement Savings Plans (RRSP'S)
- Registered Retirement Income Funds (RRIF'S)
- Tax Free Savings Accounts (TFSA'S)
- Trust accounts

Stabilization

The Corporation stabilizes credit unions through supervision, training and risk management activities.

Supervision

Credit Unions experiencing on-going difficulties are placed under supervision. The degree of supervision depends on the severity of the problem. The supervision process could involve requiring a credit union to prepare a plan to address the problem creating the difficulty and monitoring for compliance, replacing the Board of Directors, merging the credit union with another credit union or eventually winding up a credit union.

Training

Under legislation, the Corporation may prescribe the minimum level of training for a director or officer of a credit union. During the past number of years the Corporation has been encouraging training of directors in good corporate governance practices by financially supporting director training.

Risk Management

The Corporation administers six insurance policies on behalf of the credit union system. The six policies are Bonding, Directors Liability and Corporate Reimbursement, Corporate Errors and Omissions, Employment Practices Liability, Privacy Liability and On-line Banking. The Corporation also serves as the provincial representative on the Master Policyholder Committee and the National Risk Management Committee.

PUBLIC BODY OVERVIEW (CONTINUED...)

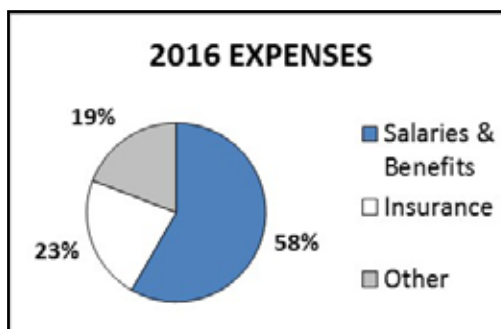
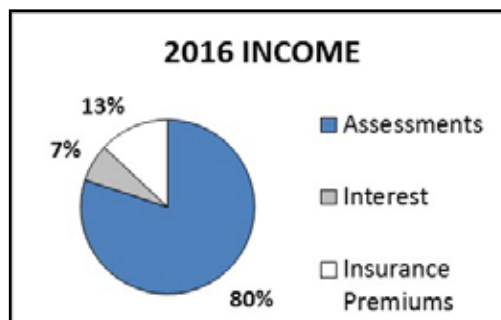
Under the risk management program all employees and directors of credit unions are required to complete and file a fidelity bond application. For each employee a criminal record check is completed (CPIC) and a credit bureau. A bonding application may be conditional if the applicant's credit bureau shows abnormal financial stress. This program is administered by the Corporation. In addition, the Corporation co-ordinates and files credit union loss claims and facilitates training for credit union employees in good risk management practices in areas covered by the policies. This training includes such areas as cash custody control procedures, debit card fraud, identity theft, credit card fraud, employee dishonesty, robbery prevention, phishing, skimming, cheque fraud, cyber risks, wire transfer fraud, money laundering and privacy legislation requirements.

The Corporation has seven employees, six situated in Marystown and one in Mount Pearl (four male and three female). The Board has six directors (five male and one female) with three directors selected from Credit Union System nominees (Appendix B). The Chief Executive Officer is also the Superintendent of Credit Unions and Secretary/Treasurer of the Board.

The Corporation is self-funding and is operated outside of Government's budgetary process. The Board of Directors of the Corporation is responsible for the approval of the budget and expenditures of the Corporation.

The Corporation's revenues are generated from deposit insurance assessments received from credit unions, premiums received on insurance programs and investment income.

The Corporation's primary operating expenses include salaries and benefits, bonding insurance and other operating costs such as travel and administration.



HIGHLIGHTS AND ACCOMPLISHMENTS

The Credit Union Deposit Guarantee Corporation continued to perform well in 2016.

Financial:

The Corporation's reported net income was \$1,164,014 in 2016 as compared to \$1,055,126 in 2015. The increase in 2016 net income is primarily a result of the following:

- Assessments increased due to an increase in insurable deposits
- Interest income increased due to a more favorable interest rate

The Deposit Guarantee Fund Balance at the end of 2016 was \$8,928,839 as compared to \$7,764,825 at the end of 2015. The Corporation reported assets of \$9,204,982 in 2016 compared to \$8,035,621 in 2015.

The audited financial statements of the Corporation are contained in pages 13 to 27 of this report.

Operational:

In accordance with its legislative mandate, the Corporation continued to monitor and examine credit unions in 2016 and continued its supervision of one credit union. This credit union was released from Supervision in early 2017.

The Corporation completed four (4) examinations of credit unions in 2016 covering seven (7) branches. There were no deficiencies or non-compliance issues identified that posed significant risk to these credit unions.

The Corporation continued its focus on good governance and risk management practices. The Corporation continued its sponsorship of credit union directors training by covering 50% of the cost of training taken by credit union directors amounting to \$8,008.

The Corporation is Master Policy Holder for six insurance policies. In 2016 there were a total of nineteen (19) claims filed, fourteen (14) On-Line Banking claims, one (1) claim for Plastic Card Fraud, one (1) claim for crisis response intervention, (1) one for forgery which was declined as it fell under the deductible limit, one (1) electronic crime claim and one (1) in transit claim. After insurance deductibles, the net amount of claims paid out to credit unions was \$50,929 in 2016. At the end of 2016 there was another in transit claim of \$29,000 pending.

The Corporation processed 65 bonding applications (64 staff and 1 director) in 2016. Fifty-eight (58) were approved unconditionally and seven (7) were conditionally approved.

HIGHLIGHTS AND ACCOMPLISHMENTS

The Corporation's staff attended international, national, regional and provincial meetings during the year. The Corporation staff participated on the National Risk Management Committee, Credit Union Prudential Supervisors Association, the Atlantic Credit Union Prudential Supervisors Association, and the International Credit Union Regulators Network.

The Credit Union Examiner attended an update by the Financial Transaction and Reports Analysis Centre of Canada (FINTRAC) on money laundering and financing terrorist activities. Also all staff participated in a two hour session on privacy in the workplace.

BUSINESS ISSUES

The following section presents the business issues fulfilling the requirements outlined in the *Transparency and Accountability Act* which designates the Corporation a Category 2 entity, to report to the people of Newfoundland and Labrador on progress in the areas of awareness and enterprise risk management during 2014.

Business Issue 1: Awareness

The Credit Union Deposit Guarantee Corporation believes that continuing awareness of the deposit insurance program will not only support member growth in the credit union system but will enhance the long term viability of the System.

Goal

Three Year Business Goal:

By December 31, 2016, the Credit Union Deposit Guarantee Corporation will have developed new materials for promotion of deposit insurance, strategically advertised the deposit insurance program using print media, and completed an awareness survey and an effectiveness report.

Objective for the year 2016:

By December 31, 2016, the Credit Union Deposit Guarantee Corporation will have advertised deposit insurance using print media, completed an awareness survey and an effectiveness report.

Indicators:

- Deposit insurance using print media advertised
- Awareness survey completed
- Effectiveness report completed

BUSINESS ISSUES (CONTINUED...)

Results achieved:

For business Plan 2014-2016, the Credit Union Deposit Guarantee Corporation decided to continue its concentration on awareness of the deposit insurance guarantee and the role of the Credit Union Deposit Guarantee Corporation.

In 2014, new deposit insurance brochures and other promotional materials were developed and printed.

In 2015, these new promotional materials were forwarded to all credit union branches to assist them in ensuring members and would be members understood the deposit insurance being provided. The guarantee was promoted using print advertising and further information was provided by CUDGC representatives at annual general meetings of credit unions.

In 2016, CUDGC continued advertising the guarantee using print advertising. An awareness survey and an effectiveness report were completed. The survey completed in 2016 contained similar questions to the survey completed in 2013. It was concluded that there was limited awareness of the deposit insurance guarantee and the role of CUDGC and that without continuous advertising, public awareness would not improve. It was further concluded that CUDGC did not have the financial ability to undertake such a campaign.

Business Issue 2: Enterprise Risk Management (ERM)

The Credit Union Deposit Guarantee Corporation believes that it is important that it engage in an Enterprise Risk Management process to ensure both current and future risks which may impact the operation of the Credit Union Deposit Guarantee Corporation now and into the future are fully understood.

Goal

Three Year Business Goal:

By December 31, 2016, the Credit Union Deposit Guarantee Corporation will have completed an Enterprise Risk Management process.

Objective for the year 2016:

By December 31, 2016, the Credit Union Deposit Guarantee Corporation will have developed and implemented mitigation strategies.

Indicators:

- Mitigation strategies developed
- Mitigation strategies implemented

BUSINESS ISSUES (CONTINUED...)

Results achieved:

For business Plan 2014-2016, the Credit Union Deposit Guarantee Corporation also decided to develop an enterprise risk management framework.

In 2014, the board and senior management of the Credit Union Deposit Guarantee Corporation completed training in the enterprise risk management process and developed an ERM policy. Key risks were identified and a key risk register was prepared and approved.

In 2015, the Board of the Credit Union Deposit Guarantee Corporation identified the key risks and their key impacts, prioritized the key issues and completed a gap analysis. In 2016, based on the gap analysis completed in 2015 only one mitigation strategy needed to be developed and implemented which was with respect to succession planning. In 2016 CUDGC developed and implemented a business continuity plan. Senior management are required to review this plan and report to CUDGC board annually on whether there are any changes required to the plan.

OPPORTUNITIES AND CHALLENGES AHEAD

Opportunities

1. To support the development of credit union directors, management and staff in the Newfoundland and Labrador credit union system by financially supporting training initiatives.
2. To maintain and enhance communication with credit union directors by attending annual general meetings, board on board meetings and attending provincial and regional credit union system meetings.
3. To support the continued prosperity of the credit union system by ensuring legislation is appropriate to the needs of a growing and ever changing credit union system.

Challenges

1. To ensure legislation is appropriate to the needs of a growing and ever-changing credit union system.
2. To assist provincial credit unions in mitigating any possible negative impacts resulting from proposed changes to Federal legislation with respect to withdrawal of supervisory oversight of credit union centrals and changes to Federal credit union legislation.
3. To ensure the Corporation's staff and directors undertake educational opportunities to enable the corporation to satisfactorily respond to new issues that may result from the rapid changes taking place in the financial industry.

APPENDIX A - MANDATE

Legislated Mandate *(Source: Credit Union Act, 2009 Chapter C-37.2)*

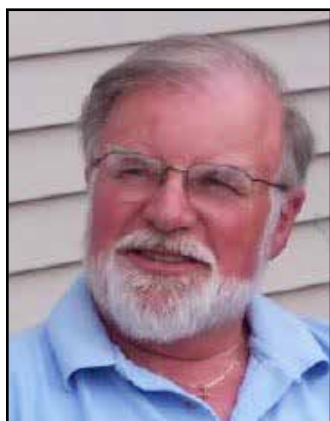
134. The duties of the guarantee corporation are
- a) to provide, for the benefit of persons having deposits with credit unions in the province, deposit insurance against loss of part or all of those deposits by making payments to the depositors to the extent and in the manner authorized by this Act;
 - b) in those circumstances that the guarantee corporation considers appropriate, to provide assistance to credit unions for the purpose of stabilization or for the orderly liquidation of a credit union;
 - c) to protect deposits in credit unions against impairment arising from financial losses and insolvency by
 - (i) promoting the development and implementation of sound business practices and sound financial policies and procedures by credit unions, and
 - (ii) establishing and implementing loss prevention programs and other controls;
 - d) to act as supervisor of a credit union; and
 - e) to do those other things that may be required or authorized by this Act or the regulations.

APPENDIX B - DIRECTOR PROFILES



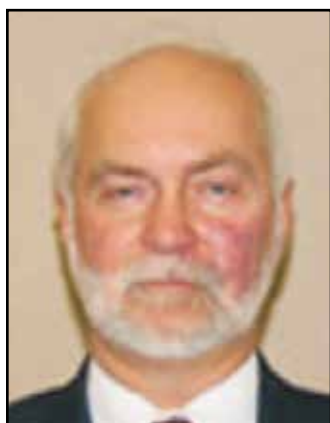
Julian McCarthy
Chair

Julian McCarthy is the Assistant Deputy of Regulatory Affairs, Department of Service NL, Government of Newfoundland and Labrador. He has held this position and has been Chair of the Board for the Credit Union Deposit Guarantee Corporation since April of 2011. Mr. McCarthy has been employed with the provincial government for 30.5 years and has a Bachelor of Commerce (honors) degree from Memorial University.



Clayton Handrigan
Vice-Chair

Clayton Handrigan is a retired educator, having spent 30 years as a teacher, guidance counselor, and an administrator. He holds a Bachelor of Arts (Education) degree and a Bachelor of Arts degree from Memorial University and a Master of Education degree from the University of Toronto. He served on the Board of Directors of the Newfoundland and Labrador Credit Union for 12 years, three of which he was the President and Chair of the Board. Mr. Handrigan is a Credit Union System nominee and has served as a director of the Credit Union Deposit Guarantee Corporation for ten (10) years. His current term will expire December 15, 2019.



William Langthorne
CEO/Superintendent of Credit Unions
Secretary Treasurer

William Langthorne is the Chief Executive Officer of the Credit Union Deposit Guarantee Corporation, Superintendent of Credit Unions, and Secretary Treasurer of the Board. Mr. Langthorne has been employed with the Credit Union Deposit Guarantee Corporation since 1988. Mr. Langthorne was a Chartered Professional Accountant for over thirty years and has a Bachelor of Arts Degree with a major in Economics and a minor in Business. He completed Queens Fundamentals of Governance at Queens University in 2008.

APPENDIX B - DIRECTOR PROFILES



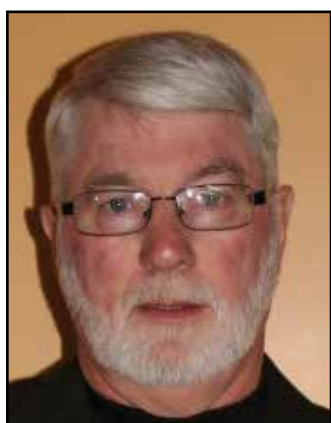
Maureen McCarthy

Maureen McCarthy is Director of Pensions, Department of Finance, Government of Newfoundland and Labrador. Ms. McCarthy is a Chartered Professional Accountant and has a Bachelor of Commerce (Honors) degree from Memorial University. Ms. McCarthy has been on the Board of the Credit Union Deposit Guarantee Corporation since 2000 as a Government appointee.



Ray Andrews

Ray Andrews is a consultant dealing with fisheries policy and planning. He graduated with a Bachelor of Science (Biology) in 1970 from Memorial University. Mr. Andrews was Deputy Minister of Fisheries, a Director of the Canadian Saltfish Corporation, Vice-Chair of the Fisheries Loan Board, a member of the Northern Cod Task Force, director of the Marine Institute Board of Governors and Chairperson of the Newfoundland and Labrador Fisheries Development Corporation. Mr. Andrews is a credit union system nominee and has been on the Board of the Credit Union Deposit Guarantee Corporation for nine (9) years. His current term will expire on March 5, 2018.



Brendan Doyle

Brendan Doyle is a retired educator, with tenure as a teacher, department head, guidance counsellor, administrator, program specialist, and President of Newfoundland and Labrador Teachers' Association. He holds a Bachelor of Arts degree from St. Francis Xavier University, a Bachelor of Education and Master of Education in Administration degrees from Memorial University of Newfoundland, and a Master of Education in Guidance and Counselling from the University of New Brunswick. Mr. Doyle served ten years on the Board of Directors of Codroy Valley/Leading Edge Credit Union. Mr. Doyle is credit union system nominee and has been on the Board of the Credit Union Deposit Guarantee Corporation for two years. His current term expired on March 5, 2017.

Maureen McCarthy

APPENDIX C - AUDITED FINANCIAL STATEMENTS

Financial Statements of

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

Year Ended December 31, 2016

AUDITOR'S REPORT



P.O. Box 29024
St. John's, NL A1A 5B5
T: 709.754.7009
F: 709.754.5314
E: brian@briantscammell.ca

To the Directors of Credit Union Deposit Guarantee Corporation NL

We have audited the accompanying financial statements of Credit Union Deposit Guarantee Corporation NL, which comprise the balance sheet as at December 31, 2016 and the statements of income and fund balance and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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.

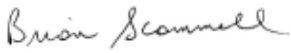
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or 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 Credit Union Deposit Guarantee Corporation NL as at December 31, 2016 and its financial performance and its cash flow for the year then ended in accordance with International Financial Reporting Standards.

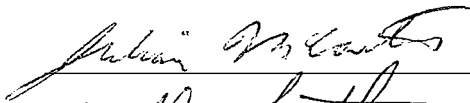
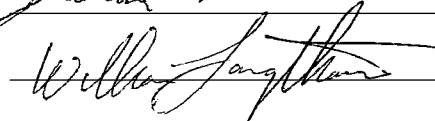
St. John's, NL
March 30, 2017


Brian T. Scammell Professional Corporation

BALANCE SHEET

| | 2016 | 2015 |
|--|---------------------|---------------------|
| ASSETS | | |
| Cash | \$ 41,062 | \$ 44,668 |
| Marketable securities (Market value \$9,100,110; 2015 - \$7,925,110) (Note 4) | 9,100,110 | 7,925,110 |
| Accounts receivable | 500 | 500 |
| Interest receivable | 32,931 | 34,278 |
| Harmonized sales tax recoverable | 19,641 | 20,357 |
| Prepaid expenses | 420 | 407 |
| Property, plant and equipment (Net of accumulated amortization) (Note 5) | 10,318 | 10,301 |
| | \$ 9,204,982 | \$ 8,035,621 |
| LIABILITIES | | |
| Accounts payable and accrued liabilities | \$ 276,143 | \$ 270,796 |
| FUND BALANCE | 8,928,839 | 7,764,825 |
| LIABILITIES AND FUND BALANCE | \$ 9,204,982 | \$ 8,035,621 |

ON BEHALF OF THE BOARD

 Director
 Director

STATEMENT OF INCOME AND FUND BALANCE

| | 2016 | 2015 |
|---|---------------------|---------------------|
| REVENUE | | |
| Assessments | \$ 1,769,700 | \$ 1,673,942 |
| Bonding insurance | 287,858 | 284,221 |
| Interest | 153,275 | 147,691 |
| Other | 1,000 | 950 |
| | 2,211,833 | 2,106,804 |
| EXPENSES | | |
| Salaries and wages | 611,118 | 603,109 |
| Insurance | 235,417 | 231,074 |
| Rental | 44,460 | 44,460 |
| Meetings and conventions | 35,062 | 37,990 |
| Training | 30,138 | 28,386 |
| Travel | 21,549 | 32,720 |
| Data access costs | 14,256 | 13,903 |
| Professional fees | 12,867 | 9,412 |
| Office | 12,404 | 14,309 |
| Telephone | 11,712 | 11,402 |
| Directors fees | 9,645 | 8,375 |
| Advertising and promotion | 6,427 | 12,965 |
| Amortization | 2,764 | 3,274 |
| Loss on disposal of assets | - | 299 |
| | 1,047,819 | 1,051,678 |
| NET INCOME | 1,164,014 | 1,055,126 |
| FUND BALANCE - BEGINNING OF YEAR | 7,764,825 | 6,709,699 |
| FUND BALANCE - END OF YEAR | \$ 8,928,839 | \$ 7,764,825 |

STATEMENT OF CASH FLOWS

| | 2016 | 2015 |
|---|--------------------|------------------|
| OPERATING ACTIVITIES | | |
| Net income | \$ 1,164,014 | \$ 1,055,126 |
| Items not affecting cash: | | |
| Amortization of property, plant and equipment | 2,764 | 3,274 |
| Loss on disposal of property, plant and equipment | - | 299 |
| Interest revenue | (153,275) | (147,691) |
| | 1,013,503 | 911,008 |
| Changes in non-cash working capital: | | |
| Interest received | 154,622 | 193,457 |
| Accounts payable | 5,346 | (275,020) |
| Prepaid expenses | (13) | 35 |
| Harmonized sales tax payable | 716 | (213) |
| | 160,671 | (81,741) |
| Cash flow from operating activities | 1,174,174 | 829,267 |
| INVESTING ACTIVITIES | | |
| Purchase of property, plant and equipment | (2,780) | (1,380) |
| Proceeds from sale of marketable securities | 675,000 | 7,100,000 |
| Purchase of marketable securities | (1,850,000) | (7,925,000) |
| Cash flow used by investing activities | (1,177,780) | (826,380) |
| INCREASE (DECREASE) IN CASH FLOW | (3,606) | 2,887 |
| Cash - beginning of year | 44,668 | 41,781 |
| CASH - END OF YEAR | \$ 41,062 | \$ 44,668 |

NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

The Credit Union Deposit Guarantee Corporation (the "Corporation") is established as a corporation without share capital under the provisions of Section 133 of the Credit Union Act, 2009.

2. BASIS OF PREPARATION

Statement of compliance

These financial statements are general purpose financial statements which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements for the year ended December 31, 2016 were authorized for issue by the Corporation's Board of Directors on March 30, 2017.

Basis of preparation

These financial statements are presented in Canadian dollars which is the Corporation's functional currency. They are prepared under the historical cost convention except for cash and cash equivalents which are classified as available-for-sale.

Use of significant accounting judgments, estimates and assumptions

The preparation of these financial statements in conformity with IFRS requires management to make judgements, estimates, and assumptions that affect the application of policies and reported amounts of assets and liabilities, and disclosures of contingent assets and contingent liabilities at the date of these financial statements, and the reported amounts of revenues and expenses during the year. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from estimates made in these financial statements.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS have a significant effect on these financial statements. Outlined below are areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the Corporation's financial statements:

(a) Provisions

The amount recognized as accounts payable and accrued liabilities is the best estimate of the consideration required to settle the related liability, taking into account the risks and uncertainties surrounding the obligation.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Management believes the estimates used in preparing these financial statements are reasonable. Actual results in the future may differ materially from those reported.

Assistance to credit unions, which is included in accounts payable and accrued liabilities, is management's best estimate of the consideration required to settle the related liability, taking into account the risks and uncertainties surrounding the obligation.

(continues)

NOTES TO THE FINANCIAL STATEMENTS

2. BASIS OF PREPARATION *(continued)*

(b) Economic lives of property, plant and equipment

Management determines the estimated useful lives of its property, plant and equipment based on historical experience of the actual lives of property, plant and equipment of similar nature and functions, and reviews these estimates at the end of each reporting period.

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Corporation has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after January 1, 2016.

(a) IAS 1 Disclosure Initiative

The Corporation has applied these amendments for the first time in the current year. The amendments clarify that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information for disclosure purposes. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance. The application of this amendment has not resulted in any impact on the financial performance or financial position of the Corporation.

(b) IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization

The Corporation has applied these amendments for the first time in the current year. The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset.

As the Corporation does not use a revenue-based method for depreciation of its property, plant and equipment, the application of these amendments has had no impact on the Corporation's financial statements.

New standards and interpretations not yet adopted

Certain new standards, interpretations, amendments and improvements to the existing standards have been issued by the IASB but are not yet effective for the year ended December 31, 2016, and have not been applied in preparing these financial statements:

(a) Financial instruments

In November 2009 and October 2010, the IASB issued IFRS 9 - Financial Instruments ("IFRS 9"), Classification and Measurement of Financial Assets and Financial Liabilities. IFRS 9 will replace IAS 39 - Financial Instruments: Recognition and Measurement ("IAS 39") in its entirety. IFRS 9 uses a single approach to determine whether a financial asset or liability is measured at amortized cost or fair value, replacing the multiple rules in IAS 39.

In November 2014, the IASB announced the completion of a package of three amendments to the accounting requirements for financial statements set out in IFRS 9. The amendments are as follows:

- bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements;
- allow the changes to address the so-called 'own credit' issue that were already included in IFRS 9 to be applied in isolation without the need to change any other accounting for financial instruments; and

(continues)

NOTES TO THE FINANCIAL STATEMENTS

2. BASIS OF PREPARATION *(continued)*

- remove the January 1, 2015 mandatory effective date of IFRS 9, to provide sufficient time for preparers of financial statements to make the transition to the new requirements.

The Corporation is assessing the potential impact of these new amendments and standards. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with earlier adoption permitted.

(b) Revenue for contracts with customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

IFRS 15 is applicable for annual periods beginning on or after January 1, 2018, with earlier application permitted. Management of the Credit Union is assessing the potential impact of this new standard.

(c) Leases

On January 13, 2016, the IASB issued IFRS 16 Leases which provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It supersedes IAS 17 Leases and its associative interpretative guidance. Significant changes were made to lessee accounting with the distinction between operating and finance leases removed and assets and liabilities recognized in respect of all leases (subject to limited exceptions for short-term leases and leases of low value assets.) In contrast, IFRS 16 does not include significant changes to the requirements for lessors. IFRS 16 is effective January 1, 2019, with earlier application permitted for companies that have also adopted IFRS 15 Revenue From Contracts with Customers. Management of the Corporation is assessing the potential impact of this new standard.

(d) IAS 7 Disclosure initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The amendments apply prospectively for annual periods beginning on or after January 1, 2017 with earlier application permitted. Management of the Corporation do not anticipate that the application of these amendments will have a material impact on the Corporation's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

3. OTHER SIGNIFICANT ACCOUNTING POLICIES

Cash

Cash consists of balances with banks.

Financial instruments

Classification

A financial instrument is a contract that establishes a financial asset for one party and a financial liability or equity instrument for the other party. All financial instruments have been classified either based on the type of instrument or the Corporation's intention regarding the instrument, as described below:

Held for Trading

Financial assets classified as held for trading are typically acquired for resale prior to maturity or designated as held for trading. They are measured at fair value on the balance sheet date. Fair value fluctuations including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in investment income. Cash and cash equivalents have been classified as held-for-trading.

Financial liabilities designated as held for trading are those non-derivative financial liabilities that the Corporation elects to designate on initial recognition as instruments that it will measure at fair value through other interest expense. These are accounted for in the same manner as held for trading assets. The Corporation has not designated any non-derivative financial liabilities as held for trading.

Held to Maturity

Held to maturity financial assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity, other than loans and receivables, that an entity has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. The Corporation has classified its investments as held to maturity.

Available for Sale

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale, or that are not classified as loans and receivables, held for trading, or held to maturity. Except as mentioned below, available for sale financial assets are carried at fair value with unrealized gains and losses included in accumulated other comprehensive income until realized when the cumulative gain or loss is transferred to other income. Available for sale financial assets that do not have quoted market prices in an active market are recorded at cost. Interest on interest bearing available for sale financial assets is calculated using the effective interest method. No financial assets have been classified as available for sale except for cash and cash equivalents.

Loans and Receivables

Loans and receivables are recorded at amortized cost using the effective interest method. Amortized cost is a reasonable estimate of the fair value of these instruments.

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NOTES TO THE FINANCIAL STATEMENTS

3. OTHER SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Other Liabilities

Other liabilities, such as bank indebtedness and accounts payable and accrued liabilities, are recorded at amortized cost using the effective interest method and include all financial liabilities other than derivative instruments. Amortized cost is a reasonable estimate of the fair value of these instruments

Transaction Costs

Transaction costs are expensed as incurred.

Fair Values

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable willing parties who are under no compulsion to act. Fair values are determined by reference to quoted bid or asking prices in an active market. In the absence of an open market, the Corporation determines fair values based on internal or external valuation models such as discounted cash flow analysis or using observable market-based inputs.

Effective Interest Method

The Corporation uses the effective interest method to recognize interest income or expense, premiums or discounts earned or incurred for financial instruments.

Capital assets

Capital assets are stated at cost or deemed cost less accumulated amortization. Capital assets are amortized over their estimated useful lives on a declining balance basis at the following rates and methods:

| | | |
|------------------------|-----|--------------------------|
| Computer equipment | 30% | declining balance method |
| Furniture and fixtures | 20% | declining balance method |
| Signage | 20% | declining balance method |

The Corporation regularly reviews its capital assets to eliminate obsolete items.

Capital assets acquired during the year but not placed into use are not amortized until they are placed into use.

Severance pay

Severance pay, which is included with accounts payable and accrued liabilities, is accrued for all employees for whom the right to such compensation is vested.

Revenue recognition

The Corporation recognizes assessment revenue based on a percentage of insured deposits of individual credit unions operating within the Province of Newfoundland & Labrador. Interest revenue is recognized based on the investment interest collected and accrued during the year, and bonding revenue is recognized based on a percentage of individual credit unions' assets plus a \$60,000 fee that is allocated to the Newfoundland and Labrador credit unions based on a pre-determined formula.

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NOTES TO THE FINANCIAL STATEMENTS

3. OTHER SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Assistance to credit unions

Assistance to credit unions is recorded only when it can be reasonably determined by the Corporation that such a payment will be required and when the Board of Directors has assessed the reasonableness of such a charge and authorized the assistance as a commitment of the Fund. The determination of the assistance requires the exercise of judgement because the precise amount, method and timing of such assistance is dependent on future events. The amount of actual assistance paid and possible future assistance is disclosed in the financial statements.

Pension costs

Employees of the Corporation other than the Chief Executive Officer are included in the Public Service Pension Plan of the Government of Newfoundland and Labrador. Contributions to the plans are required from both the employees and the Corporation. The annual contributions for pension are recognized in the accounts on a current basis. Contributions to this plan totalled \$39,922 (2015- \$40,077).

The Corporation also contributed to a private registered retirement savings plan for the Chief Executive Officer based on a percentage of his annual salary. Contributions to this plan totalled \$8,368 (2015 - \$8,247)

Future income taxes

Income taxes are reported using the future income taxes method, as follows: current income tax expense is the estimated income taxes payable for the current year after any refunds or the use of losses incurred in previous years, and future income taxes reflect:

- the temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts used for tax purposes;
- the benefit of unutilized tax losses that will more likely than not be realized and carried forward to future years to reduce income taxes.

Future income taxes are estimated using the rates enacted by tax law and those substantively enacted for the years in which future income taxes assets are likely to be realized, or future income tax liabilities settled. The effect of a change in tax rates on future income tax assets and liabilities is included in earnings in the period when the change is substantively enacted.

4. MARKETABLE SECURITIES

| | 2016 | 2015 |
|--|---------------------|---------------------|
| Concentra Financial term deposit, 2%, matured April 11, 2016 | \$ - | \$ 7,500,000 |
| Concentra Financial term deposit, 1.35%, matured April 28, 2016 | - | 425,000 |
| Concentra Financial term deposit, 1.69%, maturing April 11, 2018 | 8,500,000 | - |
| Concentra Financial term deposit, 1.00%, maturing April 27, 2017 | 600,000 | - |
| Newfoundland and Labrador Credit Union share | 100 | 100 |
| Concentra share | 10 | 10 |
| | \$ 9,100,110 | \$ 7,925,110 |

NOTES TO THE FINANCIAL STATEMENTS

5. PROPERTY, PLANT AND EQUIPMENT

| 2015 | | | | |
|---------------------------------|--------------|------------|---------------------------|---------------|
| | Computers | Signage | Furniture and Fixtures | Total |
| | \$ | \$ | \$ | \$ |
| Cost | | | | |
| Balance, beginning of year | 81,855 | 1,547 | 36,220 | 119,622 |
| Additions | 1,380 | - | - | 1,380 |
| Disposals | 502 | - | - | 502 |
| Balance, end of year | 82,733 | 1,547 | 36,220 | 120,500 |
| Accumulated Depreciation | | | | |
| Balance, beginning of year | 75,839 | 656 | 30,633 | 107,128 |
| Reductions on disposal | - | 203 | - | 203 |
| Amortization expense | 1,978 | 178 | 1,118 | 3,274 |
| Balance, end of year | 77,614 | 834 | 31,751 | 110,199 |
| Net book value | 5,119 | 713 | 4,469 | 10,301 |

| 2016 | | | | |
|---------------------------------|--------------|------------|---------------------------|---------------|
| | Computers | Signage | Furniture and Fixtures | Total |
| | \$ | \$ | \$ | \$ |
| Cost | | | | |
| Balance, beginning of year | 82,733 | 1,547 | 36,220 | 120,500 |
| Additions | 2,031 | - | 750 | 2,781 |
| Disposals | - | - | - | - |
| Balance, end of year | 84,764 | 1,547 | 36,970 | 123,281 |
| Accumulated Depreciation | | | | |
| Balance, beginning of year | 77,614 | 834 | 31,751 | 110,199 |
| Reductions on disposal | - | - | - | - |
| Amortization expense | 1,652 | 143 | 969 | 2,764 |
| Balance, end of year | 79,266 | 977 | 32,720 | 112,963 |
| Net book value | 5,498 | 570 | 4,250 | 10,318 |

NOTES TO THE FINANCIAL STATEMENTS

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Corporation's financial instruments are comprised of cash, investments, receivables and accounts payable.

Cash is reported at fair value on the balance sheet. Receivables and accounts payable are reported at amortized cost which approximates fair value due to their short term nature. Investments are reported at amortized cost using the effective interest method which approximates their fair value.

7. NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS

The Corporation is exposed to the following risks as a result of holding financial instruments: credit risk, market risk and liquidity risk. The following is a description of those risks and how the Corporation manages the exposure to them.

Credit Risk

Credit risk is the risk that a financial loss will occur due to the failure of a counterparty to discharge its contractual commitment or obligation to the Corporation. Credit risk may arise principally through its investments included in the Corporation's asset portfolio.

The Corporation manages this risk by making investments in accordance with the investment policy established by the Board of Directors which permits the Corporation to invest in high quality, liquid short-term investments. Equity investments are not permitted.

Market Risk

Market risk arises from changes in interest rates on investments in its portfolio that affect the Corporation's net interest income. The Corporation's goal is to maximize its return on these portfolios, without taking unreasonable risk and retaining a high degree of liquidity.

The Corporation manages this risk by investing in securities that are not susceptible to significant changes in rates of return to the Corporation caused by changes in market values of the investments.

Liquidity Risk

Liquidity risk is the risk of having insufficient financial resources to meet the Corporation's funding requirements.

The Corporation's liquidity policies and practices include the measurement and forecast of cash flows and maintenance of a pool of high quality liquid assets.

8. COMMITMENTS

The Corporation has entered into a lease agreement for office space which expires December 31, 2021 with a 5 year renewal option. The amount of the annual rent payable is \$36,810 plus HST.

9. INCOME TAXES

Credit union assessments and assistance are excluded from the calculation of taxable income.

The undepreciated capital cost for income tax purposes of the Corporation's depreciable assets exceeds the net book value by \$137,532.

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NOTES TO THE FINANCIAL STATEMENTS

9. INCOME TAXES *(continued)*

The Corporation has the following non-capital losses available, listed by year of expiry, which can be used to reduce future years' taxable income. The potential income tax benefits associated with these items have not been recognized in the financial statements

| | | |
|-------------|----|---------|
| 2027 | \$ | 255,907 |
| 2028 | | 387,654 |
| 2029 | | 434,292 |
| 2030 | | 575,432 |
| 2031 | | 654,705 |
| 2032 | | 658,896 |
| 2033 | | 631,274 |
| 2034 | | 565,881 |
| 2035 | | 607,889 |
| 2036 | | 598,445 |

\$ 5,370,375

10. RELATED PARTY TRANSACTIONS

The Corporation's compensation, including the employers' portion of benefits, to key management personnel in 2016, 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 Corporation, including directors and management was \$241,711 (2015 - \$237,189).

