CREDIT UNION
DEPOSIT GUARANTEE CORPORATION

Protecting Credit Union Member Deposits for Over 30 Years

ANNUAL BUSINESS REPORT 2017

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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 year ended December 31, 2017.

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 participated in seven meetings during 2017: five regular meetings, one meeting with a board of a credit union, and a meeting with credit union board chairs. Individual directors of the Corporation also attended nine 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 International Credit Union Regulators Network, 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 2017.

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

OVERVIEW

The Credit Union Deposit Guarantee Corporation has six employees, five located in Marystown and one in Mount Pearl. The Board of Directors of the Corporation has six members, including three selected from Credit Union System nominees. The Chief Executive Officer is also the Superintendent of Credit Unions and Secretary/ Treasurer of the Board. The mandate of the Credit Union Deposit Guarantee Corporation is outlined in Section 134 of the Credit Union Act, 2009. 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.

The Corporation is self- funding and is operated outside of Government's budgetary process. The Board of Directors 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. Primary operating expenses include salaries and benefits, bonding insurance and other operating costs such as travel and administration.

HIGHLIGHTS AND PARTNERSHIPS

The Credit Union Deposit Guarantee Corporation continued to perform well in 2017.

Financial:

The Corporation's reported net income was $1,198,221in 2017 as compared to $1,164,014 in 2016. The increase in 2017 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 favourable interest rate

The Deposit Guarantee Fund Balance at the end of 2017 was $10,127,059 as compared to $8,928,838 at the end of 2016. The Corporation reported assets of $10,423,719 in 2017 compared to $9,204,982 in 2016.

The audited financial statements of the Corporation are contained in pages 10 to 22 of this report.

Operational:

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

The Corporation completed five (5) examinations of credit unions in 2017 covering nine (9) 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 $2,469.

HIGHLIGHTS AND PARTNERSHIPS (CONTINUED...)

The Corporation is Master Policy Holder for six insurance policies. In 2016, there were a total of seventeen (17) claims filed: twelve (12) On-Line Banking claims, two (2) Bond in Transit claims, one (1) robbery claim, and (2) two cheque forgery claims.

After insurance deductibles, the net amount of claims paid out to credit unions was $256,691 in 2017.

The Corporation processed 64 bonding applications (58 staff and 6 directors) in 2017. Fifty-three (53) were approved unconditionally and eleven (11) were approved conditionally.

The Corporation's staff attended international, national, regional and provincial meetings during the year. Staff participated on the National Risk Management Committee and attended the Canadian Credit Union Leaders Conference.

Also, all staff participated in in-house training sessions on Occupational Health and Safety and cyber security.

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 its 2017-2019 three year business plan.

Issue: Legislative Review

Business plan 2017-2019 focused on one issue, ensuring legislation is appropriate to the needs of the regulator, the Credit Union Deposit Guarantee Corporation, so that it can effectively regulate the credit union sector and secondly, to ensure legislation is flexible enough to allow credit unions to compete in an ever-changing financial industry environment without negatively impacting the strength, stability and success of the credit union system. There has been a direct correlation over the years between effective credit union legislation and the success of the Credit Union Deposit Guarantee Corporation and the credit union system.

Goal

By December 31 2019, the Credit Union Deposit Guarantee Corporation will have completed a comprehensive review of credit union legislation and made recommendations to the Minister.

Indicators:

- *Credit Union Act, 2009* and its regulations reviewed
- Summary of potential legislative changes prepared
- Credit union legislation in other jurisdictions researched
- Stakeholders consulted
- Final summary of recommended changes prepared
- Regional meetings on final recommended changes held
- Changes recommended to Minister

Objective for the year 2017:
By December 31, 2017, the Credit Union Deposit Guarantee Corporation will have reviewed legislation and prepared a summary of potential changes.

Indicators:
- *Credit Union Act, 2009* and *Credit Union Regulations, 2009* reviewed
- Summary of legislative changes prepared

Results achieved:
CUDGC staff reviewed the one hundred and ninety eight (198) sections of the *Credit Union Act, 2009* and forty–one Regulations. In total there were 64 subsections of the Act including 6 deletions and 19 subsections of the *Regulations* including 3 deletions that were identified as areas where a change should be considered. There was also one new section of the Act identified that may need to be added to deal with a provincial credit union that wished to continue as a federal credit union. All provincial credit unions are regulated by the Province whereas a federal credit union would be incorporated under the Bank Act and be regulated by the Federal Government. All identified changes were summarized and reviewed by CUDGC Board.

In 2018 feedback will be solicited from credit unions on the preliminary changes identified and other changes that credit unions would like to be considered. CUDGC will also be reviewing legislation from other jurisdictions in the areas where changes are being proposed to ensure the legislation is current and where appropriate consistent.

Objective for the year 2018:
By December 31, 2018, the Credit Union Deposit Guarantee Corporation will have researched credit union legislation in other jurisdictions and consulted with stakeholders.

Indicators:
- Credit union legislation in other jurisdictions researched.
- Stakeholders consulted.
- Final summary of recommended changes prepared.
- Regional meetings on final recommended changes held.

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.

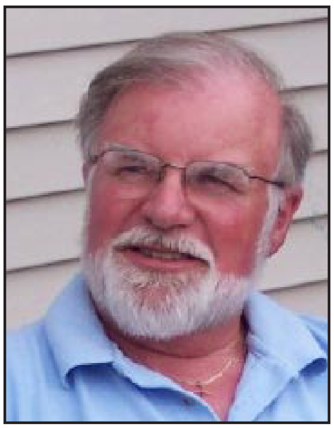
Challenges

1. To ensure legislation is appropriate to the needs of a growing and ever-changing credit union system.
2. To 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 - DIRECTOR PROFILES

Julian McCarthy
Chair

Julian McCarthy is the Assistant Deputy Minister 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 31.5 years and has a Bachelor of Commerce (honours) 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 eleven (11) years. His current term will expire December 15, 2019.

William Langthorne
Secretary Treasurer
CEO/Superintendent of Credit Unions

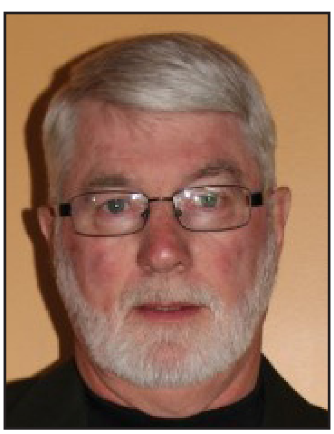
William Langthorne is the Chief Executive Officer of the Credit Union Deposit Guarantee Corporation, Superintendent of Credit Unions, and Secretary Treasurer of the Board. Mr. Langthorne has been employed with the Credit Union Deposit Guarantee Corporation since 1988. Mr. Langthorne was a Chartered Professional Accountant, CGA, for almost thirty-five 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.

Maureen McCarthy

Maureen McCarthy was 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 ten (10) 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 three (3) years. His current term will expire on May 4, 2020.

APPENDIX B - AUDITED FINANCIAL STATEMENTS

Financial Statements of

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

Year Ended December 31, 2017

BRIAN T. SCAMMELL CPA CBV
ASSURANCE VALUATION & ADVISORY

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INDEPENDENT AUDITOR'S REPORT

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, 2017 and the statements of income and retained earnings 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, 2017 and its financial performance and its cash flow for the year then ended in accordance with International Financial Reporting Standards.

Brian Scammell

St. John's, NL
March 28, 2018

Brian T. Scammell Professional Corporation
Chartered Professional Accountant

BALANCE SHEET

		2017		2016
ASSETS				
Cash	$	**42,756**	$	41,062
Marketable securities *(Market value $10,300,110; 2016 $9,100,110) (Note 4)*		**10,300,110**		9,100,110
Accounts receivable		**885**		500
Interest receivable		**48,942**		32,931
Harmonized sales tax recoverable		**21,771**		19,641
Prepaid expenses		**1,637**		420
Property, plant and equipment *(Net of accumulated amortization) (Note 5)*		**7,618**		10,318
	$	**10,423,719**	$	9,204,982
LIABILITIES AND SHAREHOLDERS' EQUITY				
Accounts payable and accrued liabilities	$	**296,660**	$	276,144
RETAINED EARNINGS		**10,127,059**		8,928,838
LIABILITIES AND SHAREHOLDERS' EQUITY	$	**10,423,719**	$	9,204,982

COMMITMENTS *(Note 8)*

ON BEHALF OF THE BOARD

William Langthorne *Director*

Director

STATEMENT OF INCOME AND FUND BALANCE

		2017		2016
FEES				
Assessments	**$**	**1,806,845**	$	1,769,700
Bonding insurance		**294,673**		287,858
Interest		**164,740**		153,275
Other		**900**		1,000
		2,267,158		2,211,833
EXPENSES				
Salaries and wages		**623,753**		611,118
Insurance		**243,254**		235,417
Meetings and conventions		**38,209**		35,062
Rental		**36,810**		44,460
Travel		**35,203**		21,549
Training		**20,194**		30,138
Office		**14,961**		12,404
Data access costs		**14,683**		14,256
Telephone		**11,741**		11,712
Professional fees		**10,660**		12,867
Directors fees		**9,624**		9,645
Advertising and promotion		**7,195**		6,427
Amortization		**2,613**		2,764
Loss on disposal of assets		**37**		-
		1,068,937		1,047,819
NET INCOME		**1,198,221**		1,164,014
RETAINED EARNINGS - BEGINNING OF YEAR		**8,928,838**		7,764,824
RETAINED EARNINGS - END OF YEAR	**$**	**10,127,059**	$	8,928,838

STATEMENT OF CASH FLOWS

		2017		2016
OPERATING ACTIVITIES				
Net income	**$**	**1,198,221**	$	1,164,014
Items not affecting cash:				
Amortization of property, plant and equipment		**2,613**		2,764
Loss on disposal of property, plant and equipment		**37**		-
Interest revenue		**(164,740)**		(153,275)
		1,036,131		1,013,503
Changes in non-cash working capital:				
Accounts receivable		**(385)**		-
Interest received		**148,729**		154,622
Accounts payable and accrued liabilities		**20,516**		5,346
Prepaid expenses		**(1,217)**		(13)
Harmonized sales tax payable		**(2,130)**		716
		165,513		160,671
Cash flow from operating activities		**1,201,644**		1,174,174
INVESTING ACTIVITIES				
Purchase of property, plant and equipment		**-**		(2,780)
Proceeds on disposal of property, plant and equipment		**50**		-
Proceeds from sale of marketable securities		**570,000**		675,000
Purchase of marketable securities		**(1,770,000)**		(1,850,000)
Cash flow used by investing activities		**(1,199,950)**		(1,177,780)
INCREASE (DECREASE) IN CASH FLOW		**1,694**		(3,606)
Cash - beginning of year		**41,062**		44,668
CASH - END OF YEAR	**$**	**42,756**	$	41,062
CASH FLOW SUPPLEMENTARY INFORMATION				
Interest received	**$**	**16,011**	$	(1,347)
Interest paid	**$**	**-**	$	-
Income taxes paid	**$**	**-**	$	-

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, 2017 were authorized for issue by the Corporation's Board of Directors on March 28, 2018.

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 basis 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)

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

Amendments to IAS-7 - Disclosure Initiatives and Amendments to IAS 12 - Recognition of Deferred Tax Assets for Unrealized Losses became effective for annual periods beginning on or after January 1, 2017 and did not have a material impact on the Corporation's annual audited 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, 2017, 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
- 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.

(continues)

2. BASIS OF PREPARATION *(continued)*

- 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 Corporation 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.

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.

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3. OTHER SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

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

(continues)

3. OTHER SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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 (2016- $39,922).

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 (2016 - $8,368)

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

	2017	2016
BMO term deposit, 1.50%, maturing April 12, 2018	**$ 1,200,000**	$ -
Concentra Financial term deposit, 1.69%, maturing April 11, 2018	**8,500,000**	8,500,000
Concentra Financial term deposit, 1.00%, maturing April 27, 2018	**600,000**	600,000
Newfoundland and Labrador Credit Union share	**100**	100
Concentra share	**10**	10
	$ 10,300,110	$ 9,100,110

5. PROPERTY, PLANT AND EQUIPMENT

2017

	Computers	Signage	Furniture and Fixtures	Total
	$	$	$	$
Cost				
Balance, beginning of year	84,764	1,547	36,970	123,281
Additions		-	-	-
Disposals	1,243	-	-	1,243
Balance, end of year	83,521	1,547	36,970	122,038
Accumulated Depreciation				
Balance, beginning of year	79,266	977	32,720	112,963
Reductions on disposal	1,156			1,156
Amortization expense	1,649	114	850	2,613
Balance, end of year	79,759	1,091	33,570	114,420
Net book value	**3,762**	**456**	**3,400**	**7,618**

(continues)

5. PROPERTY, PLANT AND EQUIPMENT *(continued)*

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
	79,266	977	32,720	112,963
Net book value	**5,498**	**570**	**4,250**	**10,318**

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.

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7. NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS *(continued)*

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 $140,182.

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
2037	589,009
	$ 5,959,384

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 $243,750 (2016 - $241,711).