CREDIT UNION DEPOSIT GUARANTEE CORPORATION NL

Financial Statements

Year Ended December 31, 2016

CREDIT UNION DEPOSIT GUARANTEE CORPORATION NL

Index to Financial Statements

Year Ended December 31, 2016

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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, 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.

Brian Scammell

St. John's, NL
March 30, 2017

Brian T. Scammell Professional Corporation

CREDIT UNION DEPOSIT GUARANTEE CORPORATION NL

Balance Sheet

December 31, 2016

		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

William Langthorne Director

See notes to financial statements

CREDIT UNION DEPOSIT GUARANTEE CORPORATION NL

Statement of Income and Fund Balance

Year Ended December 31, 2016

	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

See notes to financial statements

CREDIT UNION DEPOSIT GUARANTEE CORPORATION NL

Statement of Cash Flow

Year Ended December 31, 2016

		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

See notes to 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.

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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

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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.

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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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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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
Cencentra 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

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
	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.

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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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).