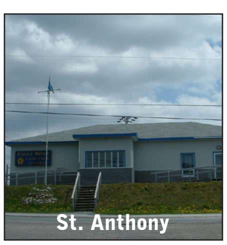
Annual Business Report 2008

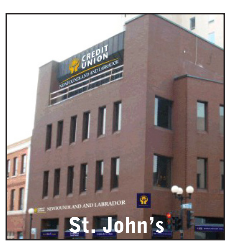
CREDIT UNION

DEPOSIT GUARANTEE CORPORATION

Triton

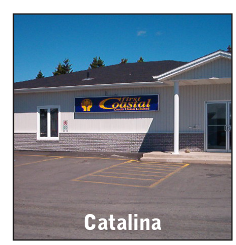
Deer Lake

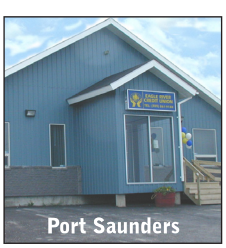

St. Anthony


St. John's


Carbonear

McKays


Catalina


Port Saunders


St. George's


St. John's


Twillingate


Pasadena


Glovertown

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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 2008.

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 unions system by monitoring credit unions to ensure they comply with legislation and exercise sound business practices.

The Board of the Corporation held thirteen meetings during 2008: seven regular board meetings and six meetings with boards of credit unions. In addition, directors of the Corporation attended six annual general meetings of credit unions and several meetings of two credit unions that were involved in amalgamation discussions.

The Corporation continued to support the professional development of its directors. During the year several directors of the Corporation attended a joint national meeting of Stabilization Funds/Insurers and Regulators, a meeting of Atlantic Stabilization Funds/Insurers and the Newfoundland and Labrador credit union directors' conference.

The Board of the Corporation acknowledges it is accountable for the actual results of its business plan. This report provides a summary of the Corporation's accomplishments in 2008 and the progress of the Corporation in meeting the objectives contained in its Business Plan 2008-2010.

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,

W Morris

WINSTON MORRIS
Chairperson

PUBLIC BODY OVERVIEW

Vision

Newfoundlanders and Labradorians having access to a credit union system that is strong, stable and successful.

Mission

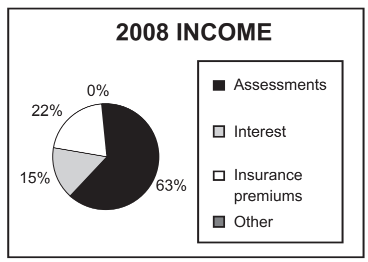
By 2010 the Credit Union Deposit Guarantee Corporation's mission is that it will have improved systems in place to facilitate credit union compliance with sound business practices.

Lines of Business

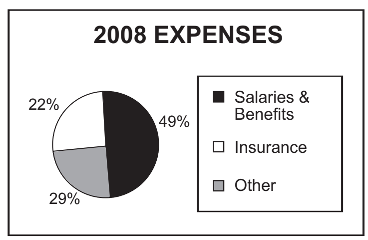
The Credit Union Deposit Guarantee Corporation provides the following services to its primary clients:

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

The Corporation is situated in Marystown, Newfoundland and Labrador, and has seven employees (four male and three female) including the Executive Director, who also sits on the Board. The Board has six directors (four male and two female) with three directors selected from Credit Union System nominees.



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 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.

In 2008, the Corporation paid out $281,029 to support a loan guarantee in respect to the amalgamation of two credit unions in 2005. The Corporation also provided a grant of $400,000 to another credit union to assist in its deficit recovery. The Corporation's Deposit Guarantee Fund Balance at the end of 2008 was $5,279,250.

HIGHLIGHTS / ACCOMPLISHMENTS

The Credit Union Deposit Guarantee Corporation continued to perform well in 2008.

Financial:

The Corporation's reported net income was $498,380 in 2008 as compared to $595,783 in 2007. This decrease is primarily a result of an increase in salaries due to the addition of an employee during the year and an increase in insurance costs.

The Deposit Guarantee Fund Balance at the end of 2008 was $5,279,250 as compared to $5,461,899 at the end of 2007. During 2008 the Corporation provided assistance from the Fund totaling $681,029. A grant in aid of $400,000 was paid to a credit union to assist in the reduction of its deficit and a payment of $281,029 was paid under a loan guarantee.

The Corporation reported assets of $5,350,549 in 2008, compared to $5,959,591 in 2007.

The audited financial statements of the Corporation are contained in pages 10 to 21 of this report.

Operational:

In accordance with its legislative mandate, the Corporation continued to monitor and examine credit unions in 2008 and continued its supervision of five credit unions. The Corporation completed 5 examinations of credit unions covering 7 branches. There were no deficiencies or non-compliance issues identified that posed significant risk to these credit unions. During the year the Corporation also provided assistance with the amalgamation of two credit unions.

The Corporation continued its focus on good risk management practices. The Corporation arranged management training on changes to the *Proceeds of Crime (Money Laundering) and Terrorist Act* and Regulations and an information session on International Financial Reporting Standards (IFRS). Credit Unions must be fully compliant with IFRS by 2011 as the Canadian Institute of Chartered Accountants (CICA) has decided to adopt IFRS by January 1, 2011 and is requiring all publicly accountable entities to be compliant by that date.

In its role as Master Policy Holder for five insurance policies, the Corporation processed five claims which resulted in a net recovery to credit unions of $101,669. In addition, the Corporation processed forty bonding applications which were all approved.

The Corporation staff participated in national and regional meetings, having representation on the National Risk Management Committee, the Credit Union Funds/Insurers Committee and the National Regulators Committee. Currently, the Executive Director is also the Atlantic representative on the Credit Union Funds/Insurers IFRS Committee.

OUTPUTS

The following section presents the outcome of objectives 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 Corporate Governance of Credit Unions and Balanced Regulation during 2008.

Strategic Issue 1: Corporate Governance of Credit Unions

By facilitating the improvement of corporate governance of credit unions the Credit Union Deposit Guarantee Corporation is enhancing the long term viability of the Newfoundland and Labrador Credit Union system and at the same time mitigating any potential for loss to the Corporation and its Fund.

Goal 1

Three-year strategic Goal:
By 2010: The Credit Union Deposit Guarantee Corporation will have facilitated the improvement of the corporate governance of credit unions.

Goal for current reporting year:
By 2008: The Credit Union Deposit Guarantee Corporation will have developed a training program for new credit union directors and delivered specialized training for all directors.

Measure:
Development of a training program and delivery of specialized training in strategic planning and new Standards of Sound Business Practices.

Indicators:
- List of training needs for new directors identified
- Specialized training on strategic planning and new standards of sound business practices delivered to all current directors
- Resource people to deliver all training identified

Results Achieved
Training needs were identified based on the Corporation's recognized needs, as well as consultation with individuals having responsibility for delivering training to other credit unions nationally.

A one-day director orientation program was developed covering the following training areas that are considered essential to any new credit union director carrying out his/her responsibilities:
- The Credit Union System in Canada
  - Overview of the Canadian Credit Union System including the role of national, regional and provincial credit union organizations;
  - Overview of affiliated organizations and the services they provide.

- Directors Legal Responsibilities and the role of directors' insurance
- Key areas of Legislation
- Credit Union Deposit Guarantee Corporation and its role
- Key Concepts
  - Strategic Planning
  - Budgeting
  - Financial statement review
  - Performance monitoring
  - Liquidity
  - Capital
- Effective Board meetings: Role of Chair and directors
- Communication between Board and Management
- Standards of Sound business Practices
- Credit Union Director Training Program (CUDA)

Delivery of this new director orientation program is scheduled to take place each year in May and will include a director's manual which can be used by a director as a reference guide during his/her directorship. The presenter for the first Director Orientation program to be held in Gander on May 28, 2009 is Ms. Vivian Campbell, Manager of Credit Union Consulting, with Credit Union Central of Nova Scotia.

During 2008 the Credit Union Deposit Guarantee Corporation sponsored the third annual Credit Union Directors Conference in Gander for all current credit union directors. There was excellent attendance with over 70 directors in attendance which represented approximately 60% of directors. Some directors did not attend due to work commitments and other directors had already availed of the training through other credit union sponsored programs. The conference sessions focused on corporate governance and the responsibilities of directors and included the responsibilities of directors with respect to:

- *The Proceeds of Crime (Money Laundering) and Terrorist Financing Act.* This session was given by Anthony Kissmate, Compliance Officer, with the Financial Transaction Reports Centre of Canada (Fintrac) who is responsible for enforcing the Proceeds of Crime (Money Laundering) and Terrorist Financing Act.
- Sound Business Practices. This session was given by Bill Langthorne, Executive Director with the Credit Union Deposit Guarantee Corporation, which is responsible for ensuring credit unions comply with sound business practices.
- Strategic Business Planning. This session was given by Ed Howes, a consultant with CUSOURCE (Credit Union Knowledge Network). *CUSOURCE* is the home of learning, knowledge sharing, career management and strategic people development for the Canadian credit union system.
- Responsibility for Loss Control within a Credit Union. This Session was given by Bruce Leppinen, Underwriting and Account Specialist, with CUMIS Insurance. CUMIS Insurance provides Fidelity Bonding, Directors Liability, Errors and Omissions, Privacy and Employment Practices insurance to credit unions.

Strategic Issue 2: Balanced Regulation

Achieving and maintaining the appropriate level of Government regulation is a challenge in the financial industry given the rapid changes that are occurring. Some regulations are outdated and need to be changed or eliminated. This is also consistent with government's Red Tape Reduction Initiative.

Goal 2

Three-year strategic Goal:
By 2010: There will be a new Credit Union Act and regulations and information sessions will be delivered to credit union directors and management.

Goal for current reporting year:
By 2008: The Credit Union Deposit Guarantee Corporation has completed consultations on a new credit union act and regulations with its stakeholders and submitted a draft act to cabinet for approval for introduction to the House of Assembly and a draft regulations to the minister for approval.

Measure:
Draft Act submitted to Cabinet for approval and draft regulations submitted to minister for approval.

Indicators:
- Review commenced
- Opinions solicited from the Credit Unions
- Consultations completed
- Draft Act and regulations written
- Draft Act submitted to Cabinet for approval
- Draft regulations submitted to Minister for approval

By the end of 2008 the Credit Union Deposit Guarantee had reviewed the Act and regulations and consulted with credit unions on the proposed changes to the Act and regulations. As a result of the consultation a request was received from credit unions to sell insurance products such as life insurance, segregated funds and annuities from credit union branches and with the approval of cabinet, a consultation was undertaken with industry stakeholders with respect to this request. By the end of 2008, a draft of changes to the Act and regulations had been prepared. However, due to the unanticipated consultation relating to the selling of insurance products, as well as a heavy workload at Legislative Counsel, the Credit Union Act was not ready for submission by the end of the fiscal year.

OPPORTUNITIES / CHALLENGES FOR 2008

Opportunities

The Credit Union Act will be ready for submission to Legislative Counsel for their review and then to Cabinet for approval. Regulations will be submitted to the Minister. Pending Ministerial and Cabinet approval proclamation of both should occur by July 1, 2009.

There is an opportunity to reduce risk to the System and the Credit Union Deposit Guarantee Corporation by assisting in providing training to directors and staff of credit unions.

Challenges

While the Credit Union System in Newfoundland and Labrador has not been impacted by the global financial crisis, from a liquidity perspective during 2008 there has been a small decline in the financial margin as a result of the declines in interest rates announced by the Federal Government. Also the credit unions may see an increase in loan delinquency if there is a prolonged economic downturn in the economy. The challenge for CUDGC is early identification of deterioration in financial margins or increased delinquency to ensure remedial action is taken to mitigate any potential for a negative impact on net income.

Financial Statements of

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

Year Ended December 31, 2008

AUDITOR'S REPORT

BRIAN T. SCAMMELL CA CBV
ASSURANCE VALUATION & ADVISORY

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E: brian@briantscammell.ca

To the Directors of Credit Union Deposit Guarantee Corporation

I have audited the balance sheet of Credit Union Deposit Guarantee Corporation as at December 31, 2008 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Brian Scammell

St. John's, NL
March 3, 2009

CHARTERED ACCOUNTANT

BALANCE SHEET

	2008	2007
ASSETS		
CURRENT		
Cash *(Note 6)*	**$ 324,842**	$ -
Investments *(Note 4)*	**4,902,662**	5,870,372
Accounts receivable	**641**	6,248
Interest receivable	**70,110**	25,022
Harmonized sales tax recoverable	**24,671**	25,207
Prepaid expenses	**4,050**	3,496
	5,326,976	5,930,345
CAPITAL ASSETS *(Note 5)*	**23,573**	29,246
	$ 5,350,549	$ 5,959,591
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT		
Bank indebtedness	**$ -**	$ 8,561
Accounts payable	**71,299**	489,131
	71,299	497,692
RETAINED EARNINGS	**5,279,250**	5,461,899
	$ 5,350,549	$ 5,959,591

APPROVED ON BEHALF OF THE BOARD

W. Morris *Director*

William Langthorne *Director*

STATEMENT OF INCOME AND FUND BALANCE

	2008	2007
FEES		
Assessments	**$ 904,402**	$ 866,558
Bonding insurance	**317,924**	285,054
Interest	**213,081**	254,251
Other	**700**	56,447
	1,436,107	1,462,310
EXPENSES		
Salaries and wages	**466,356**	394,992
Bonding insurance	**268,600**	234,385
Training	**37,850**	36,558
Travel	**36,868**	40,240
Rental	**32,606**	29,517
Office	**20,917**	20,009
Meetings and conventions	**19,658**	31,023
Telephone	**10,845**	10,273
Professional fees	**8,285**	34,689
Amortization	**9,028**	11,868
Advertising and promotion	**8,956**	9,747
Vehicle	**8,882**	6,611
Directors fees	**7,420**	5,385
Memberships	**1,456**	1,230
	937,727	866,527
NET INCOME	**498,380**	595,783
DEPOSIT GUARANTEE FUND BALANCE - BEGINNING OF YEAR	**5,461,899**	5,298,655
	5,960,279	5,894,438
Assistance to credit unions	**(681,029)**	(432,539)
DEPOSIT GUARANTEE FUND BALANCE - END OF YEAR	**$ 5,279,250**	$ 5,461,899

STATEMENT OF CASH FLOWS

		2008		2007
OPERATING ACTIVITIES				
Net income	**$**	**498,380**	$	595,783
Item not affecting cash:				
Amortization of capital assets		**9,028**		11,868
		507,408		607,651
Changes in non-cash working capital:				
Accounts receivable		**5,607**		10,367
Interest receivable		**(45,088)**		(9,766)
Accounts payable		**(417,832)**		(50,501)
Prepaid expenses		**(554)**		701
Harmonized sales tax payable		**536**		21,779
		(457,331)		(27,420)
Cash flow from operating activities		**50,077**		580,231
INVESTING ACTIVITIES				
Purchase of capital assets		**(3,355)**		(1,028)
Redemption of investments		**82,430,784**		23,440,861
Purchase of investments		**(81,463,074)**		(24,618,060)
Cash flow from (used by) investing activities		**964,355**		(1,178,227)
FINANCING ACTIVITY				
Assistance to credit unions		**(681,029)**		(432,539)
INCREASE (DECREASE) IN CASH FLOW		**333,403**		(1,030,535)
Cash (deficiency) - beginning of year		**(8,561)**		1,021,974
CASH (DEFICIENCY) - END OF YEAR *(Note 6)*	**$**	**324,842**	$	(8,561)
CASH FLOWS SUPPLEMENTARY INFORMATION				
Interest paid	**$**	**-**	$	-
Income taxes paid	**$**	**-**	$	-

1. DESCRIPTION OF BUSINESS

The Credit Union Deposit Guarantee Corporation (the "Corporation") is established as a corporation without share capital under the provisions of Section 176 of the Credit Union Act.

The Corporation guarantees the deposits of members of credit unions in the Province of Newfoundland and Labrador. This guarantee is supported by investments held by the Corporation.

2. CHANGES IN ACCOUNTING POLICIES

Financial Instruments

The Canadian Institute of Chartered Accountants (“CICA”) has issued Handbook Section 3862: Financial Instruments: Disclosures and Handbook Section 3863: Financial Instruments: Presentation, which implemented changes to accounting standards for disclosure for disclosure of financial instruments. The disclosure requires information to be presented on all categories of financial instruments, the nature and extent of risks associated with those financial instruments and how the Corporation manages those risks. These standards are effective for the 2008 fiscal year and are applied prospectively.

Capital Management

The CICA has also issued Handbook Section 1535: Capital Disclosures, which requires an entity to disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital.This standard is effective for the 2008 fiscal year and is applied prospectively.

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. CICA Handbook Section 3855 establishes a framework for the recognition and measurement of financial assets and financial liabilities. 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

Fiinancial 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. 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.

(continues)

. **OTHER SIGNIFICANT ACCOUNTING POLICIES *(continued)***

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 entiity 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 knowledgable 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.

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3. OTHER SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Capital assets

Capital assets are stated at cost less accumulated amortization. Capital assets are amortized over their estimated useful lives at the following rates and methods:

Motor vehicles	30%	declining balance method
Computer equipment	30%	declining balance method
Furniture and fixtures	20%	declining balance method

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

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 Executive Director 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 $21,751 (2007- $18,942).

The Corporation also contributed to a private registered retirement savings plan for the Executive Director based on a percentage of his annual salary. Contributions to this plan totalled $5,923 (2007- $5,613.)

Future income taxes

The liability method of tax allocation is used in accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities, and measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

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3. OTHER SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

4. INVESTMENTS

	2008	2007
Credit Union Central of Nova Scotia shares	**$ 1,000**	$ 1,000
Newfoundland & Labrador Credit Union share	**100**	100
Concentra Financial, 1.25%	**101,552**	1,004,272
Concentra Financial, 4.85%	**-**	1,065,000
Concentra Financial, 5.00%	**-**	3,800,000
Concentra Financial, 3.75%	**4,800,000**	-
Concentra shares	**10**	-
	$ 4,902,662	$ 5,870,372

5. CAPITAL ASSETS

	Cost	Accumulated amortization	**2008 Net book value**	2007 Net book value
Motor vehicles	$ 28,733	$ 16,238	**$ 12,495**	$ 17,850
Computer equipment	70,902	61,818	**9,084**	8,903
Furniture and fixtures	24,643	22,649	**1,994**	2,493
	$ 124,278	$ 100,705	**$ 23,573**	$ 29,246

6. CASH (BANK INDEBTEDNESS)

	2008	2007
Cash	**$ 324,842**	$ -
Bank indebtedness	**-**	(8,561)
	$ 324,842	$ (8,561)

7. CAPITAL MANAGEMENT

The Corporation's objectives with respect to capital management are to safeguard the entity's ability to continue as a going concern so that it can continue to operate as a deposit insurance provider for the Newfoundland & Labrador credit unions, including the provision of stabilization funds as needed.

The Corporation defines its capital as the balance in the Deposit Guarantee Fund Balance; the changes in this balance for 2008 are presented in the Statement of Income and Fund Balance.

8. 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.

9. 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.

10. CONTINGENT LIABILITY

The Corporation has provided a deficiency guarantee to Eagle River Credit Union Limited in respect to certain loans outstanding in its accounts which arose from the acquisition of the net assets of Labrador Savings Credit Union Limited. There are 3 remaining loans guaranteed by the Corporation to Eagle River Credit Union Limited as a result of the amalgamation with Labrador Savings Credit Union Limited. At December 31, 2008, the balance of the guarantee is $150,616 (2007 - $702,670). Net payouts paid or payable by the Corporation under the guarantee for the year ended December 31, 2008 totalled $281,029 (2007-$152,539).

11. COMMITMENTS

The Corporation has entered into a lease agreement for office space which expires June 30, 2011. The amount of the annual rent payable is $30,895.

12. INCOME TAXES

The Corporation has the following non-capital losses available which can be used to reduce future years' taxable income.

Year of Expiry	Amount
2009	$ 319,521
2010	463,065
2014	438,667
2015	362,558
2026	350,333
2027	255,907
2028	387,654
	$ 2,577,705

The undepreciated capital cost for income tax purposes of the Corporation's depreciable assets exceeds the net book value by $101,105.

The potential income tax benefits associated with these items have not been recognized in the financial statements

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