Annual Business Report 2011

CREDIT UNION

DEPOSIT GUARANTEE CORPORATION

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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 December 31, 2011.

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 held ten meetings during 2011: five regular board meetings and five meetings with boards of credit unions. In addition, directors of the Corporation attended ten 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 Stabilization Funds/Insurers and Regulators, the International Credit Union Regulators Roundtable, the Newfoundland and Labrador Credit Union Directors Conference, the Credit Union Conference for Credit Union Leaders and the World Conference of Credit Unions.

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 to plan for 2011.

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

JULIAN MCCARTHY
Chair

PUBLIC BODY OVERVIEW

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

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

Lines of Business
The Credit Union Deposit Guarantee Corporation provided the following services to its primary clients:
1. Regulation of Credit Unions
2. Deposit Insurance
3. Stabilization

Regulation of Credit Unions
The Corporation regulates credit unions through its examination, monitoring and enforcement activities.

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

Monitoring
Monthly, quarterly and annually the Corporation receives reports from credit unions that are reviewed and, if necessary, remedial action is taken. Annually the Corporation also reviews independent audited statements of credit unions prepared by accountants licensed under the *Public Accountancy Licensing Act.*

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

Deposit Insurance
The Corporation provides deposit insurance on deposits of credit union members equal to a maximum $250,000 per insured deposit. There are six insured deposits, including:
• Basic deposits
• Joint deposits,
• Registered Retirement Savings Plans (RRSP'S)
• Registered Retirement Income Funds (RRIF'S),
• Tax Free Savings Accounts (TFSA'S)
• Trust accounts.

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

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

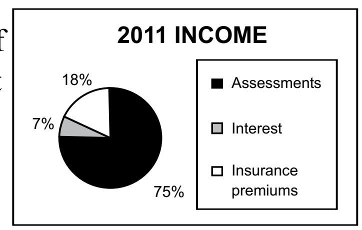
Training
Under legislation the Corporation may prescribe the minimum level of training for a director, officer or staff member of a credit union. During the past number of years the Corporation has been encouraging training of directors in good corporate governance practices by financially supporting director training and facilitating an annual directors' conference.

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

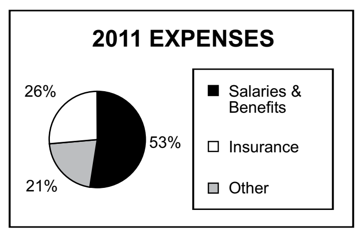
Under the risk management program all employees and directors of credit unions are required to complete and file a fidelity bond application. This program is administered by the Corporation. In addition the Corporation co-ordinates and files credit union loss claims and facilitates training to credit unions in good risk management practices in areas covered by the policies. This training includes such areas as cash custody control procedures, debit card fraud, identity theft, credit card fraud, employee dishonesty, robbery prevention, phishing, skimming, cheque fraud, money laundering and privacy legislation requirements.

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

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



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



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

In 2011, the Corporation recovered $24,779 on a loan previously paid out under a loan guarantee in respect to the amalgamation of two credit unions in 2005. The Corporation also provided assistance of $482,000 to another credit union to assist in its deficit recovery.

HIGHLIGHTS AND ACCOMPLISHMENTS

The Credit Union Deposit Guarantee Corporation continued to perform well in 2011.

Financial:

The Corporation's reported net income after credit union assistance was $24,759 in 2011 as compared to $20,992 in 2010.

The Deposit Guarantee Fund Balance at the end of 2011 was $5,392,663 as compared to $5,367,904 at the end of 2010. During 2011, the Corporation provided net assistance from the Fund in the amount of $457,221 as compared to $451,272 in 2010.

The Corporation reported assets of $5,637,778 in 2011 compared to $5,607,145 in 2010.

The audited financial statements of the Corporation are contained in pages 11 to 23 of this report.

Operational:

In accordance with its legislative mandate, the Corporation continued to monitor and examine credit unions in 2011.

The Corporation completed 5 examinations of credit unions in 2011 covering ten (10) 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 NL Credit Union Directors Conference which included such sessions as Board Governance, Before the Meeting, During and After and Enterprise Risk Governance. In addition, Dr. Wade Locke, Economist, provided a presentation on the Newfoundland and Labrador Economy. The Corporation also encouraged credit union staff development by financially supporting training in compliance requirements with respect to *Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA)* and On-Line Banking and Mobile Banking Fraud. The Corporation financially supported the professional development of Managers by providing a financial contribution towards three sessions with respect to the Harvard Management Mentorship Program.

The Corporation is Master Policy Holder for five insurance policies. There was one (1) claim processed in 2011 totaling $16,529. The Corporation processed 62 bonding applications in 2011 and all were approved.

HIGHLIGHTS AND ACCOMPLISHMENTS

The Corporation's staff participated in international, national, regional and provincial meetings during the year. The Corporation staff participated on the National Risk Management committee, National Credit Union Funds/Insurers Committee, the Atlantic Credit Union Funds/Insurers Committee, the International Regulators Committee and the National Regulators Committee. They attended the Canadian Conference for Credit Union Leaders and presented at the NL Credit Union Managers Association Conference. During 2011 the Chief Executive Officer represented the Atlantic Provinces on the National Credit Union Regulators Working Group on Capital.

Also, during the year staff participated in training on Commercial Lending, *Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA*), online banking and mobile banking fraud and Occupational Health and Safety Legislation.

OUTCOME OF OBJECTIVES

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 Awareness and Knowledge Transfer during 2011.

Strategic Issue 1: Awareness Campaign

The Credit Union Deposit Guarantee Corporation believes there is a need for an awareness campaign to support confidence in the credit union system and member growth which should enhance the strength and success of the credit union system.

Goal 1

Three Year Strategic Goal:
By December 31, 2013: The Credit Union Deposit Guarantee Corporation will have completed a credit union member and public awareness campaign and prepared a report on the success of the campaign.

Objective for the year 2011:
By December 31,2011 the Credit Union Deposit Guarantee Corporation will have designed and completed a credit union member and public pre awareness campaign survey and developed a credit union member and public awareness campaign program to commence 2012.

Indicators:
• Survey firm identified.
• Credit union member and public pre awareness campaign survey designed.
• Credit union member and public survey completed and report prepared.
• Credit union member and public awareness campaign program developed.

Measure:
Designed and completed a credit union member and public pre-awareness campaign survey and developed a credit union member and public awareness campaign program.

Results Achieved
The Credit Union Deposit Guarantee Corporation solicited requests for proposals from qualified advertising and research firms in August 2011 to design a credit union and public pre awareness campaign survey, to complete a credit union member and public survey and prepare a report, and to develop a credit union member and public awareness campaign program. Only one proposal was received and after a follow up meeting with the one respondent, Dray Media of St. John's was awarded the contract.

With the assistance of the Corporation's staff and Board, Dray Media completed credit union member, public, credit union employee and credit union director awareness surveys. The survey methodology was agreed upon and support materials were finalized.

The actual completion of the survey and report was deferred to January/February 2012 upon the recommendation of Dray Media. The original timeframe for the survey was November/December 2011. Dray media advised that historically this was not a good time to complete a survey given that it was the Christmas season.

The development of the awareness campaign was deferred as any campaign would be contingent on the results of the survey.

The survey, report and development of the campaign will be completed in the first quarter of 2012.

Objective for the year 2012:
By December 31, 2012 the Corporation will have commenced a credit union member and public awareness campaign.

Measure:
Commencement of a credit union member and public awareness campaign.

Indicators:
• Credit union member and public survey completed and report prepared.
• Credit union member and public awareness campaign program developed.
• Development of a TV ad story board(s)
• Focus group session held with a number of credit union managers
• Development/production of ad(s)
• Development of newspaper ads and/or radio ads
• Purchase of advertising campaign

Strategic Issue 2: Knowledge Transfer

The Credit Union Deposit Guarantee Corporation under the *Credit Union Act, 2009* assumed greater responsibility for the regulation of credit unions. Also the Corporation identified through its on site visits that there is a need to develop a knowledge transfer process to be implemented among directors and credit union staff. This need specifically relates to knowledge transfer in the areas of the Corporation's responsibilities and the deposit insurance program.

As a result, the Corporation plans to focus specifically on the responsibilities and authority of the Corporation to ensure there is an understanding of the legislative protections available to safeguard the assets in credit unions and the deposit insurance coverage the Corporation provides.

Goal 2

Three Year Strategic Goal:
By December 31, 2013: The Credit Union Deposit Guarantee Corporation will have enhanced the level of knowledge of credit union directors and employees with respect to the Corporation's legislative responsibilities and the deposit insurance program.

Objective for year 2011:
By December 31, 2011 the Corporation will have developed and delivered regional training sessions on the legislative responsibilities of the Corporation and the deposit insurance program.

Indicators:
- Presentations completed on the Corporation's legislative responsibilities and the deposit insurance program.
- Regional training sessions completed.

Measure:
Regional training sessions delivered.

Results Achieved:
In the fall of 2011 the Corporation developed presentations on the Corporation's legislative responsibilities and the deposit insurance program and held three regional training sessions in Corner Brook, Gander and St. John's. There were a total of fifty-three (53) directors and staff that attended these sessions.

Objective for the year 2012:
By December 31, 2012 the Corporation will have developed and provided tools to support delivery of information to members on the Corporation's legislative responsibilities and the deposit insurance program.

Measure:
Development and provision of tools to support delivery of information to members on the Corporation's legislative responsibilities and the deposit insurance program.

Indicators:
- Developed a webinar on the Corporation's legislative responsibilities and deposit insurance program
- Delivered the webinar to staff and directors of credit unions.
- Developed a question and answer information pamphlet for credit union members
- Developed a weekly reward program for members who respond correctly to the key question of the week with respect to legislative responsibilities and deposit insurance.
- Prepared advertising templates to be used when credit unions advertise to the public.

OPPORTUNITIES AND CHALLENGES AHEAD

Opportunities

1. To help foster continued development of credit union directors, management and staff by 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 growth of the credit union movement by the Corporation enhancing member and public awareness of the deposit guarantee and the services provided by the Credit Union Deposit Guarantee Corporation.

Challenges

1. To ensure timely remedial action is taken to address issues to minimize any potential impact on the guarantee fund.

2. To ensure the Corporation's staff and directors undertake educational opportunities on a timely basis to enable the corporation to satisfactorily respond to new issues that may result from the rapid changes taking place in the financial industry.

Financial Statements of

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

Year Ended December 31, 2011

BRIAN T. SCAMMELL CA CBV
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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Credit Union Deposit Guarantee Corporation

I have audited the accompanying financial statements of Credit Union Deposit Guarantee Corporation, which comprise the balance sheets as at December 31, 2011 and December 31, 2010 and the statements of comprehensive income and fund balance and cash flows for the years ended December 31, 2011 and December 31, 2010, 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

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 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Credit Union Deposit Guarantee Corporation as at December 31, 2011 and December 31, 2010, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Brian Scammell

St. John's, NL
March 27, 2012

CHARTERED ACCOUNTANT

BALANCE SHEET

Credit Union Deposit Guarantee Corporation
Balance Sheet
December 31, 2011

	2011	2010	2009
ASSETS			
Cash	**$ 386,396**	$ 29,011	$ 175,244
Marketable securities *(Note 5)*	**5,125,127**	5,459,822	5,238,888
Accounts receivable	**1,297**	797	2,072
Interest receivable	**78,611**	74,466	70,673
Harmonized sales tax recoverable	**28,345**	25,344	23,828
Prepaid expenses	**3,000**	2,983	2,981
Capital assets *(Note 7)*	**15,002**	14,722	12,611
	$ 5,637,778	$ 5,607,145	$ 5,526,297
LIABILITIES			
Accounts payable	**$ 245,115**	$ 239,241	$ 179,385
FUND BALANCE	**5,392,663**	5,367,904	5,346,912
LIABILITIES AND NET ASSETS	**$ 5,637,778**	$ 5,607,145	$ 5,526,297

ON BEHALF OF THE BOARD

_____ *Director*

_____ *Director*

STATEMENT OF INCOME AND FUND BALANCE

Credit Union Deposit Guarantee Corporation
Statement of Comprehensive Income and Fund Balance
Year Ended December 31, 2011

	2011	2010
REVENUE		
Assessments	**$ 1,162,430**	$ 1,109,032
Bonding insurance	**280,823**	275,759
Interest	**111,928**	117,697
Other	**1,165**	1,250
	1,556,346	1,503,738
EXPENSES		
Salaries and wages	**562,143**	578,083
Bonding Insurance	**229,549**	224,670
Training	**57,856**	32,645
Travel	**55,727**	48,184
Rental	**31,853**	31,791
Professional fees	**32,913**	19,314
Meetings and conventions	**31,602**	28,162
Advertising and promotion	**19,442**	11,011
Office	**13,601**	18,205
Telephone	**13,567**	15,073
Data access costs	**12,480**	12,480
Directors fees	**9,400**	7,375
Amortization	**4,233**	4,113
	1,074,366	1,031,106
INCOME FROM OPERATIONS	**481,980**	472,632
OTHER INCOME (EXPENSES)		
Loss on disposal of assets	**-**	(368)
Assistance to credit unions	**(457,221)**	(451,272)
	(457,221)	(451,640)
NET INCOME	**24,759**	20,992
FUND BALANCE - BEGINNING OF YEAR	**5,367,904**	5,346,912
FUND BALANCE - END OF YEAR	**$ 5,392,663**	$ 5,367,904

Credit Union Deposit Guarantee Corporation
Statement of Cash Flows
Year Ended December 31, 2011

		2011		2010
OPERATING ACTIVITIES				
Net income	$	24,759	$	20,992
Adjustments for:				
Amortization of capital assets		4,233		4,113
Loss on disposal of assets		-		368
Interest income		(111,928)		(117,697)
		(82,936)		(92,224)
Changes in other items:				
Accounts receivable		(500)		1,275
Accounts payable		5,874		59,857
Prepaid expenses		(17)		(2)
Harmonized sales tax recoverable		(3,001)		(1,516)
Interest received		107,783		113,904
		110,139		173,518
Cash flow from operating activities		27,203		81,294
INVESTING ACTIVITIES				
Purchase of capital assets		(4,513)		(6,853)
Proceeds on disposal of capital assets		-		260
Purchase of marketable securities		(7,580,569)		(2,614,652)
Redemption of marketable securities		7,915,264		2,393,718
Cash flow from (used by) investing activities		330,182		(227,527)
INCREASE (DECREASE) IN CASH FLOW		357,385		(146,233)
Cash - beginning of year		29,011		175,244
CASH - END OF YEAR	$	386,396	$	29,011

CREDIT UNION DEPOSIT GUARANTEE CORPORATION
Notes to Financial Statements
Year Ended December 31, 2011

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

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted by the International Accounting Standards Board. ("IASB")

These are the Corporation's first financial statements to be prepared in accordance with IFRS, having previously prepared its financial statements in accordance with pre-changeover Canadian Generally Accepted Accounting Principles. ("pre-changeover Canadian GAAP.") IFRS 1 First-Time Adoption of International Financial Reporting Standards ("IFRS 1") has also been applied. Details of how the transition from pre-changeover Canadian GAAP to IFRS has affected the financial position, financial performance and cash flows are disclosed in Note 13.

The financial statements for the years ended December 31, 2011 and December 31, 2010 were authorized for issue by the Corporation's Board of Directors on March 27, 2012.

These financial statements were prepared under the historical cost convention. These financial statements are presented in Canadian dollars which is the Corporation's functional currency.

Certain new standards, amendments and interpretations have been published that are mandatory for the Corporation's accounting periods beginning on or after January 1, 2012 or later periods. The standards, amendments and interpretations that may be relevant to the Corporation are:

Presentation of Financial Statements

In June 2011, the IASB amended IAS 1 - Presentation of Financial Statements: Other Comprehensive Income ("IAS 1"), which will be applied retrospectively for annual periods beginning on or after July 1, 2012. The amendments require additional disclosures on components of other comprehensive income ("OCI").

Financial Instruments

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

Financial Instruments: Disclosures
In October 2010, the IASB amended IFRS 7 - Financial Instruments: Disclosures, which will be applied prospectively for annual periods beginning on or after July 1, 2011. The amendments require additional disclosures on transferred financial assets.

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CREDIT UNION DEPOSIT GUARANTEE CORPORATION
Notes to Financial Statements
Year Ended December 31, 2011

2. BASIS OF PREPARATION *(continued)*

Fair Value Measurement

In May 2011, the IASB issued IFRS 13 - Fair Value Measurement ("IFRS 13"). IFRS 13 defines fair value and sets out a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 is effective for annual periods beginning on or after January 1, 2013.

The Corporation is assessing the potential impact of these new amendments and standards.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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.

Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The effect of a change in an accounting estimate is recognized in the period in which the estimate is revised.

There are no estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next fiscal year except with respect to assistance to credit unions as discussed in Note 4.

4. 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. IFRS 7 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

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.

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CREDIT UNION DEPOSIT GUARANTEE CORPORATION
Notes to Financial Statements
Year Ended December 31, 2011

4. 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 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.

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CREDIT UNION DEPOSIT GUARANTEE CORPORATION
Notes to Financial Statements
Year Ended December 31, 2011

4. 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:

Computer equipment	30%	declining balance method
Furniture and fixtures	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.

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 $28,485 (2010- $27,089).

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 $7,805 (2010- $7,423.)

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.

CREDIT UNION DEPOSIT GUARANTEE CORPORATION
Notes to Financial Statements
Year Ended December 31, 2011

5. MARKETABLE SECURITIES

	2011	2010	2009
Bank of Montreal term deposit, 2%	**$ 5,000,000**	$ 5,000,000	$ 5,235,851
Concentra Financial term deposit, .70%	**17**	459,712	1,927
Concentra Financial term deposit, 1.55%	**125,000**	-	-
Newfoundland and Labrador Credit Union share	**100**	100	100
Concentra shares.	**10**	10	10
Credit Union Central of Nova Scotia shares.	-	-	1,000
	$ 5,125,127	$ 5,459,822	$ 5,238,888

6. 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 2011 are presented in the Statement of Income and Fund Balance.

7. CAPITAL ASSETS

	Computers	Furniture and Fixtures	Total
Cost			
January 1, 2010	$72,391	$28,203	$100,594
Additions	$2,486	$4,367	$6,853
Disposals	$628		$628
December 31, 2010	$74,249	$32,570	$106,819
Additions	$2,835	$1,677	$4,512
Disposals			
December 31, 2011	**$77,084**	**$34,247**	**$111,331**
Accum. Depreciation			
January 1, 2010	$64,580	$23,404	$87,984
Additions	$2,716	$1,396	$4,112
Disposals			
December 31, 2010	$67,296	$24,800	$92,096
Additions	$2,511	$1,722	$4,233
Disposals			
December 31,2011	**$69,807**	**$26,522**	**$96,329**
Net Book Value 2010	$6,953	$7,770	$14,723
Net Book Value 2011	**$7,277**	**$7,725**	**$15,002**

CREDIT UNION DEPOSIT GUARANTEE CORPORATION
Notes to Financial Statements
Year Ended December 31, 2011

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. COMMITMENTS

The Corporation has entered into a lease agreement for office space which expires December 31, 2016. The amount of the annual rent payable is $44,460 plus HST.

11. 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 $119,999.

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CREDIT UNION DEPOSIT GUARANTEE CORPORATION
Notes to Financial Statements
Year Ended December 31, 2011

11. INCOME TAXES *(continued)*

The Corporation has the following non-capital losses available 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

2014	$	438,667
2015		362,558
2026		350,333
2027		255,907
2028		387,654
2029		434,292
2030		575,432
2032		654,705
	$	3,459,548

12. RELATED PARTY TRANSACTIONS

The Corporation's compensation, including the employers' portion of benefits, to key management personnel in 2011, which are defined by IAS 24, Related Party Disclosures, as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, including directors and management was $222,552 (2010 - $210,770).

13. FIRST TIME ADOPTION OF INTERNATIONAL REPORTING STANDARDS

The Corporation has adopted International Financial Reporting Standards ("IFRS") effective January 1, 2011 and the financial statements for the year ended December 31, 2011 are the Corporation's first financial statements that comply with IFRS. Prior to the adoption of IFRS, the Corporation prepared its financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). IFRS 1, First Time Adoption of International Financial Reporting Standards, requires that comparative financial information be provided. As a result, the first date at which the Corporation has applied IFRS was January 1, 2010 (the "Transition Date"). IFRS 1 requires first time adopters to retroactively apply all effective IFRS standards as of the reporting date, which for the Corporation will be December 31, 2011. Therefore, the financial statements for the year ended December 31, 2011, the comparative information presented in these financial statements for the year ended December 31, 2010 and the opening IFRS balance sheet at January 1, 2010 are prepared in accordance with IFRS standards effective at the reporting date. This note explains the adjustments, if any, made by the Corporation in restating its Canadian GAAP balance sheet as January 1, 2010 and its previously issued financial statements for the year ended December 31, 2010.

Elected Exemptions From Full Retroactive Application

IFRS 1 allows first time adopters certain exemptions from the general requirement to apply all IFRS which are effective for December 2011 year-ends retroactively. IFRS 1 also includes mandatory exceptions to the retroactive application of IFRS.

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CREDIT UNION DEPOSIT GUARANTEE CORPORATION
Notes to Financial Statements
Year Ended December 31, 2011

13. FIRST TIME ADOPTION OF INTERNATIONAL REPORTING STANDARDS *(continued)*

Mandatory Exemptions

Estimates

Hindsight was not used to create or revise estimates and, accordingly, the estimates previously made by the Corporation under Canadian GAAP are consistent with their application under IFRS.

Effect of Transition

Material Adjustments to the Statement of Cash Flows for the Year Ended December 31, 2011:

There are no significant adjustments to the Corporation's statement of cash flows reported in accordance with IFRS except as noted below.

The Corporation has modified the classification of certain items within the statement of cash flows in accordance with IFRS.

Interest paid, interest received, income taxes paid and income taxes received were previously recorded as supplemental information to the statement of cash flow under Canadian GAAP. Under IFRS, these items are now included under operating activities in the statement of cash flows.

Material Adjustments to the Balance Sheet as at January 1, 2010 and December 31, 2010:

No adjustments were required to the balance sheets previously prepared at January 1, 2010 and December 31, 2010 using Canadian generally accepted accounting principles in order to comply with International Financial Reporting Standards.

Material Adjustments to the Statement of Comprehensive Income for the Year Ended December 31, 2010:

No adjustments were required to the statement of income previously prepared for the year ended December 31, 2010 using Canadian generally accepted accounting principles in order to comply with International Financial Reporting Standards.

Material Adjustments to the Statement of Fund Balance as at January 1, 2010 and December 31, 2010:

No adjustments were required to the statements of fund balance prepared at January 1, 2010 and December 31, 2010 using Canadian generally accepted accounting principles in order to comply with International Financial Reporting Standards.

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