



# Annual Business Report 2012

**CREDIT UNION  
DEPOSIT GUARANTEE CORPORATION**





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## CHAIRPERSON'S REPORT

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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 2012

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.

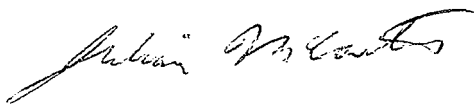
The Board of the Corporation held eight meetings during 2012: four regular meetings and four meetings with boards of credit unions. Individual directors of the Corporation also attended six annual general meetings of credit unions. In 2012, the Corporation held its first annual meeting with credit union board chairs. This meeting will be held annually and will provide an opportunity to discuss major issues facing the credit union system.

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 Credit Union Conference.

The Board of the Corporation acknowledges it is accountable for the actual results reported. This report provides an overview of the Corporation and results achieved for 2012.

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

On behalf of the Board of Directors,



**JULIAN MCCARTHY**  
Chair

# PUBLIC BODY OVERVIEW

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## **Vision**

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

## **Mission**

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

## **Mandate**

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

## **Lines of Business**

The Credit Union Deposit Guarantee Corporation 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 and monthly credit union financial statements are downloaded from the credit unions' data provider which are reviewed, and, if necessary, remedial action is taken. The Corporation also performs monthly desk audits using an inquiry program accessing the credit unions on-line data base which identifies any potential high risk transactions which are investigated. Annually the Corporation also reviews independent audited statements of credit unions prepared by accountants licensed under the *Public Accountancy Licensing Act*.

## **PUBLIC BODY OVERVIEW** (CONTINUED...)

### *Enforcement*

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

### **Deposit Insurance**

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

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

### **Stabilization**

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

### *Supervision*

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

### *Training*

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

### *Risk Management*

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

## PUBLIC BODY OVERVIEW (CONTINUED...)

Under the risk management program all employees and directors of credit unions are required to complete and file a fidelity bond application. For each employee a criminal record check is completed (CPIC) and a credit bureau. A bonding application may be conditional if the applicant's credit bureau shows abnormal financial stress. This program is administered by the Corporation. In addition, the Corporation co-ordinates and files credit union loss claims and facilitates training 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.

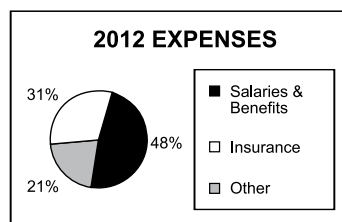
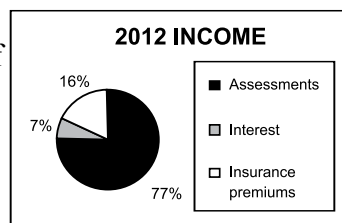
The Corporation has seven employees, six situated in Marystown and one in St. John's (four male and three female). The Board has six directors (four male and two female) with three directors selected from Credit Union System nominees. The Chief Executive Officer is also the Superintendent of Credit Unions 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 2012, the Corporation provided assistance of \$482,000 to a credit union to assist in its deficit recovery plan. This deficit was incurred in 1999 and the credit union is expected to have its deficit eliminated by the end of 2015.



## HIGHLIGHTS AND ACCOMPLISHMENTS

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The Credit Union Deposit Guarantee Corporation continued to perform well in 2012.

### **Financial:**

The Corporation's reported net income after credit union assistance was \$107,790 in 2012 as compared to \$24,759 in 2011.

The Deposit Guarantee Fund Balance at the end of 2012 was \$5,500,453 as compared to \$5,392,663 at the end of 2011. During 2012, the Corporation provided assistance from the Fund in the amount of \$482,000 as compared to \$457,221 in 2011.

The Corporation reported assets of \$6,189,279 in 2012 compared to \$5,637,778 in 2011.

The audited financial statements of the Corporation are contained in pages 12 to 23 of this report.

### **Operational:**

In accordance with its legislative mandate, the Corporation continued to monitor and examine credit unions in 2012 and continued its supervision of one credit union.

The Corporation completed six (6) examinations of credit unions in 2012 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 training by covering 50% of the cost of training taken by credit union directors amounting to \$24,505. The Corporation financially supported the professional development of credit union managers by providing a financial contribution towards a training session on understanding the challenges in the Credit Union System and strategies to address the challenges.

The Corporation is Master Policy Holder for six insurance policies. There were six (6) claims filed in 2012 totaling \$18,357.28 net of recoveries and deductibles. The Corporation processed 76 bonding application in 2012. Seventy two (72) bonding applications were approved unconditionally, three (3) were approved conditionally and one (1) application was withdrawn.



## HIGHLIGHTS AND ACCOMPLISHMENTS

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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 2012 the Chief Executive Officer represented the Atlantic Provinces on the National Credit Union Regulators Working Group on Capital.

Also, during the year operation staff participated in training in Provincial privacy legislation requirements.

## OUTCOME OF OBJECTIVES

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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 2012.

### **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.

##### **Objective for the year 2012:**

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

## OUTCOME OF OBJECTIVES (CONTINUED...)

### *Indicators:*

- Credit Union member and public survey completed and report prepared.
- Credit Union member and 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.

### *Measure:*

Commencement of a credit union member and public awareness campaign

### **Results Achieved**

The Credit Union Deposit Guarantee Corporation completed a credit union member and public survey with the assistance of Dray Media in the first quarter 2012. The survey was administered using two methods: online and paper. Paper surveys were mailed to 10,000 households throughout the province. Paper surveys were also distributed in branch to credit union members. A total of 6,000 were given to members by the service representatives at the credit union branch level. Respondents had the option to complete the survey online. Staff and directors surveys were administered 100% on line and respondents were completely anonymous.

At the end of the survey period a report was completed on the survey results. The survey was very successful with a 16% response rate or 2,581 responses. The vast majority of the respondents were members. Based on the results of the survey it was concluded that there was a lack of awareness concerning the Corporation's mandate and the deposit insurance it provides. Survey results overwhelmingly illustrated that the general public were unaware of the higher level of deposit protection credit unions provided in comparison to other financial institutions. Many respondents were unaware that credit union deposits were even insured and were unaware of the Corporation and its regulatory mandate.

Based on the survey results the Corporation developed a credit union member and public awareness TV campaign and with the assistance of Dray Media developed two television ad concepts together with story boards. The Corporation with the assistance of a focus group comprised of the Corporation's directors and all credit union managers selected a final concept. The TV ad was then produced with the assistance of Dray Media. TV advertising was purchased for the month of October to run primarily during news broadcasts on CBC and NTV throughout the day. In addition an informational newspaper ad was developed and placed to promote credit union day.

## OUTCOME OF OBJECTIVES (CONTINUED...)

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### **Objective for the year 2013:**

By December 31, 2013 the Corporation will have ended its credit union member and public awareness campaign, completed a post credit union member and public awareness survey and evaluated its success.

### **Measure:**

Completion of a credit union member and public awareness campaign and evaluated its success.

### **Indicators:**

- Credit union member and public pre-awareness campaign survey completed.
- Credit union member and public awareness campaign completed.
- Credit union member and public post awareness campaign survey completed.
- Results report completed.

## **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.

### **Objective for year 2012:**

By December 31, 2012 the Corporation will have developed and provided tools to support delivery of information to members on the Corporations legislative responsibilities and the deposit insurance program.

## OUTCOME OF OBJECTIVES (CONTINUED...)

### *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.

### *Results Achieved:*

The Corporation developed a webinar on the Corporation's legislative responsibilities and deposit insurance program and delivered it to staff and directors. A key question and answer fact sheet was developed and copies were provided to credit union branches for distribution to members. Advertising templates were prepared to run on credit union web sites and on in-house electronic advertising television systems promoting the Corporation and the deposit insurance.

A decision was made not to develop a weekly reward program for members who respond correctly to the key question of the week with respect to legislative responsibilities and deposit insurance. Instead a decision was made to use the budget allocation to advertise on VOCM.com website which would have a much broader target audience.

### **Objective for the year 2013:**

By December 31, 2013, the Corporation will have assessed the knowledge level of directors and employees on the legislative responsibilities of the Corporation and the deposit insurance coverage and prepared an evaluation report.

### *Measure:*

Completion of an assessment of whether the knowledge level of credit union directors and employees is enhanced.

### *Indicators*

- Conduct webinars for directors and employees to assess their knowledge level.
- Survey questionnaire developed and delivered.
- Report prepared on whether the knowledge level of credit union directors and employees is enhanced.

# OPPORTUNITIES AND CHALLENGES AHEAD

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## 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 so that the guarantee fund will not be negatively impacted.
2. To ensure legislation, regulation and policies respond to the ongoing changes in regulations and the financial marketplace.
3. To ensure the Corporation's staff and directors undertake educational opportunities to enable the corporation to satisfactorily respond to new issues that may result from the rapid changes taking place in the financial industry.

## APPENDIX A - MANDATE

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

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

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*Financial Statements of*

**CREDIT UNION DEPOSIT GUARANTEE CORPORATION**

*Year Ended December 31, 2012*

# AUDITOR'S REPORT



P.O. Box 29024  
St. John's, NL A1A 5B5  
P: 709.699.1135  
E: brian@briantscammell.ca

To the Directors of Credit Union Deposit Guarantee Corporation

I have audited the accompanying financial statements of Credit Union Deposit Guarantee Corporation, which comprise the balance sheet as at December 31, 2012 and the statements of comprehensive income and fund balance and cash flows for the year then ended and the statements of comprehensive income and fund balance and cash flows for the year ended December 31, 2012, 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, 2012 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

St. John's, NL  
March 14, 2013

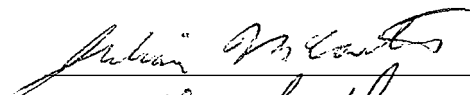
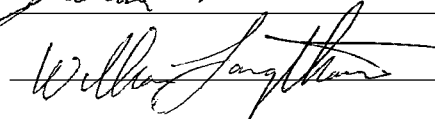
CHARTERED ACCOUNTANT



# BALANCE SHEET

	2012	2011
<b>ASSETS</b>		
Cash	\$ 65,714	\$ 386,396
Marketable securities ( <i>Market value \$6,009,880; 2011 \$5,125,127</i> ) (Note 4)	6,009,880	5,125,127
Accounts receivable	862	1,297
Interest receivable	67,617	78,611
Harmonized sales tax recoverable	32,150	28,345
Prepaid expenses	390	3,000
Capital assets (Note 5)	12,666	15,002
	<b>\$ 6,189,279</b>	<b>\$ 5,637,778</b>
<b>LIABILITIES</b>		
Accounts payable	\$ 688,826	\$ 245,115
<b>FUND BALANCE</b>	<b>5,500,453</b>	<b>5,392,663</b>
<b>LIABILITIES AND FUND BALANCE</b>	<b>\$ 6,189,279</b>	<b>\$ 5,637,778</b>

**ON BEHALF OF THE BOARD**

 Director  
 Director

## STATEMENT OF INCOME AND FUND BALANCE

	2012	2011
<b>REVENUE</b>		
Assessments	\$ 1,249,175	\$ 1,162,430
Bonding insurance	266,660	280,823
Interest	107,165	111,928
Other	600	1,165
	<b>1,623,600</b>	<b>1,556,346</b>
<b>EXPENSES</b>		
Salaries and wages	500,241	562,143
Bonding insurance	214,265	229,549
Advertising and promotion	90,333	19,442
Rental	43,974	31,853
Training	42,657	57,856
Meetings and conventions	41,823	31,602
Travel	26,826	55,727
Professional fees	20,769	32,913
Office	14,615	13,601
Telephone	13,350	13,567
Data access costs	12,854	12,480
Directors fees	8,220	9,400
Amortization	3,883	4,233
	<b>1,033,810</b>	<b>1,074,366</b>
<b>INCOME FROM OPERATIONS</b>	<b>589,790</b>	<b>481,980</b>
Assistance to credit unions	<b>(482,000)</b>	<b>(457,221)</b>
<b>NET INCOME</b>	<b>107,790</b>	<b>24,759</b>
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<b>5,392,663</b>	<b>5,367,904</b>
<b>FUND BALANCE - END OF YEAR</b>	<b>\$ 5,500,453</b>	<b>\$ 5,392,663</b>

# STATEMENT OF CASH FLOWS

	2012	2011
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 107,790	\$ 24,759
Adjustments for:		
Amortization of capital assets	3,883	4,233
Interest revenue	(107,165)	(111,928)
	<b>4,508</b>	<b>(82,936)</b>
Changes in other items:		
Accounts receivable	435	(500)
Accounts payable	443,711	5,874
Prepaid expenses	2,610	(17)
Harmonized sales tax recoverable	(3,805)	(3,001)
Interest received	118,159	107,783
	<b>561,110</b>	<b>110,139</b>
Cash flow from operating activities	<b>565,618</b>	<b>27,203</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of capital assets	(1,547)	(4,513)
Purchase of marketable securities	(6,448,280)	(7,580,569)
Redemption of marketable securities	5,563,527	7,915,264
Cash flow from (used by) investing activities	<b>(886,300)</b>	<b>330,182</b>
<b>INCREASE (DECREASE) IN CASH FLOW</b>	<b>(320,682)</b>	<b>357,385</b>
Cash - beginning of year	<b>386,396</b>	<b>29,011</b>
<b>CASH - END OF YEAR</b>	<b>\$ 65,714</b>	<b>\$ 386,396</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 1. REPORTING ENTITY

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

## 2. BASIS OF PREPARATION

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

The financial statements for the year ended December 31, 2012 were authorized for issue by the Corporation's Board of Directors on March 14, 2013.

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 continually evaluated. 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*

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.

### *New standards and interpretations not yet adopted*

Certain new standards, amendments and interpretations and improvements to the existing standards have been issued by the International Accounting Standards Board ("IASB") but are not yet effective for the year ended December 31, 2012, and have not been applied in preparing these financial statements:

# NOTES TO THE FINANCIAL STATEMENTS

## 2. BASIS OF PREPARATION *(continued)*

### *(a) 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"). The Corporation is assessing the potential impact of these amendments.

### *(b) 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 is effective for annual periods beginning on or after January 1, 2015. The Corporation is assessing the potential impact of this standard.

### *(c) 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 this standard.

## 3. OTHER SIGNIFICANT ACCOUNTING POLICIES

### **Cash**

Cash consists of balances with banks.

### **Financial instruments**

#### *Classification*

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

#### *Held for Trading*

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

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

# NOTES TO THE FINANCIAL STATEMENTS

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

### *Held to Maturity*

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

### *Available for Sale*

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

### *Loans and Receivables*

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

### *Other Liabilities*

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

### *Transaction Costs*

Transaction costs are expensed as incurred.

### *Fair Values*

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

### *Effective Interest Method*

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

# NOTES TO THE FINANCIAL STATEMENTS

## 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:

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.

### **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 \$24,274 (2011- \$28,485).

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 \$7,966 (2011- \$7,805)

### **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.

## NOTES TO THE FINANCIAL STATEMENTS

### 4. MARKETABLE SECURITIES

	2012	2011	2010
Bank of Montreal term deposit, 2%	\$ -	\$ 5,000,000	\$ -
Concentra Financial term deposit, 1.78%	5,000,000	-	-
Concentra Financial term deposit, 1.51%	1,009,770	-	-
Concentra Financial term deposit, .70%	-	17	-
Concentra Financial term deposit, 1.55%	-	125,000	-
Newfoundland and Labrador Credit Union share	100	100	-
Concentra shares	10	10	-
	<b>\$ 6,009,880</b>	<b>\$ 5,125,127</b>	<b>\$ -</b>

The Concentra \$5,000,000 deposit matures April 9, 2013 and the \$1,009,770 deposit matures April 26, 2013.

### 5. CAPITAL ASSETS

	Computers	Signage	Furniture and Fixtures	Total
<b>Cost</b>				
January 1, 2011	\$74,249		\$32,570	\$106,819
Additions	\$2,835		\$1,677	\$4,512
Disposals				
December 31, 2011	\$77,084		\$34,247	<b>\$111,331</b>
Additions		\$1,547		\$1,547
Disposals				
December 31, 2012	\$77,084	\$1,547	\$34,247	<b>\$112,878</b>
<b>Accum. Depreciation</b>				
January 1, 2011	\$67,296		\$24,800	\$92,096
Depreciation	\$2,511		\$1,722	\$4,233
December 31, 2011	\$69,807		\$26,522	<b>\$96,329</b>
Depreciation	\$2,183	\$155	\$1,545	\$3,883
December 31, 2012	\$71,990	\$155	\$28,067	<b>\$100,212</b>
Net Book Value 2011	\$7,277	\$	\$7,725	<b>\$15,002</b>
<b>Net Book Value 2012</b>	<b>\$5,094</b>	<b>\$1,392</b>	<b>\$6,180</b>	<b>\$12,666</b>



# NOTES TO THE FINANCIAL STATEMENTS

## 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 2012 are presented in the Statement of Income and Fund Balance.

## 7. 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.

## 8. 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.

## 9. 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.

## NOTES TO THE FINANCIAL STATEMENTS

### 10. 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 \$123,882.

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

<b>2014</b>	\$	438,667
<b>2015</b>		362,558
<b>2026</b>		350,333
<b>2027</b>		255,907
<b>2028</b>		387,654
<b>2029</b>		434,292
<b>2030</b>		575,432
<b>2032</b>		654,705
<b>2033</b>		658,896
		<hr/>
		\$ 4,118,444

### 11. 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 \$226,399 (2011 - \$222,552).



