Annual Report 2007

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 2007.

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 and their trade associations to ensure they comply with legislation and exercise sound business practices.

The Board of the Corporation held eleven meetings during 2007, five regular board meetings and six meetings with boards of credit unions. In addition, directors of the Board of the Corporation attended eight annual general meetings of credit unions and the annual credit union directors' conference.

During the year Mr. Raymond Andrews was appointed to the Board of the Credit Union Deposit Guarantee Corporation replacing Mr. William Dilny who had been on the Board of the Corporation since 1995.

The Board of the Corporation acknowledges it is accountable for the actual results reported in the Annual Report.

On behalf of the Board of the Corporation I would like to thank the credit unions and their trade associations 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,

WINSTON MORRIS
Chairperson

PUBLIC BODY OVERVIEW

Vision

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

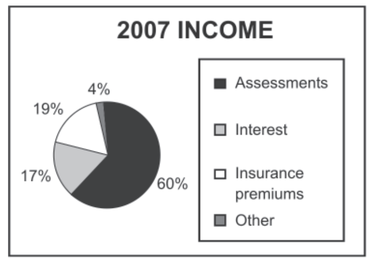
Mission

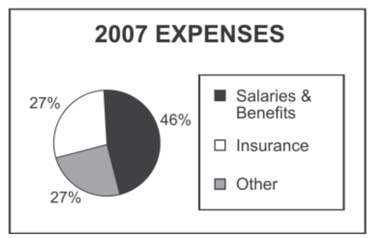
By 2010 the Credit Union Deposit Guarantee Corporation's mission is to have improved systems in place to facilitate credit union compliance with sound business practices.

Lines of Business

The Credit Union Deposit Guarantee Corporation provides the following lines of business to its primary clients:

1. Regulation of credit unions
   The Corporation regulates credit unions through its examination, monitoring and enforcement activities.
2. Deposit Insurance
   The Corporation provides deposit insurance on deposits of credit union members to a maximum $250,000 per insured deposit.
3. Stabilization
   The Corporation stabilizes credit Uunions through supervision, training and risk management activities.





The Corporation's head office is situated in Marystown, Newfoundland and Labrador, and has six employees including the Executive Director. The Board has six directors 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 are salaries and benefits, bonding insurance and other operating costs such as travel and administration.

In 2007, the Corporation paid out $152,539 to support a loan guarantee in respect to the amalgamation of two credit unions in 2005. The Corporation also provided a grant of $280,000 to another credit union to assist in its deficit recovery. The Corporation's Deposit Guarantee Fund balance at the end of 2007 was 5.5 million.

HIGHLIGHTS / ACCOMPLISHMENTS

The Credit Union Deposit Guarantee Corporation continued to perform well in 2007.

Financial:

The Corporation's reported net income was $595,783 in 2007 as compared to $487,460 in 2006. This increase is primarily a result of an increase in assessments due to an increase in insured deposits and a $50,000 insurance settlement.

The Deposit Guarantee Fund Balance at the end of 2007 was $5,461,899 as compared to $5,298,655 at the end of 2006. During 2007 the Corporation provided assistance from the fund totaling $432,539. A grant in aid of $280,000 was paid to a credit union to assist in the reduction of its deficit and a payment of $152,539 was paid under a loan guarantee.

The Corporation reported assets of $5,959,591 in 2007, an increase of 2.1% compared to an increase of 5.3% in 2006.

The audited financial statements of the Corporation are contained in pages 9 to 19 of this report.

Operational:

In accordance with its legislative mandate, the Corporation continued to monitor and examine credit unions in 2007 and continued it supervision of five credit unions. The Corporation completed seven examinations of credit unions covering twelve credit unions branches. There were no deficiencies or non compliance issues identified that posed significant risk to these credit unions. A special review was completed on one credit union which led to increased intervention by the Corporation in its day to day operations.

The Corporation continued its focus on good risk management practices. The Corporation facilitated management training in Enterprise Risk Management and an information session on changes to Money Laundering and Proceeds of Crime Legislation. It provided a grant of $3600 to the Credit Union Managers Association to defray some of the cost of this training. In addition the Corporation made training information available to credit unions on employee dishonesty covering cheque fraud, identity theft, new account fraud and mortgage fraud as well as a training package on robbery prevention.

In its role as Master Policy Holder for five insurance policies, the Corporation processed four claims which resulted in a net recovery to credit unions of $61,148. In addition the Corporation processed fifty four 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.

OUTPUTS

The following identifies by issue, the objectives, measures and indicators contained in the Credit Union Deposit Guarantee Corporation's 2007 Business Plan and the accomplishments achieved in 2007.

Issue 1: Corporate Governance of Credit Unions

Objective 1: By 2007, the Credit Union Deposit Guarantee Corporation (the Corporation) will have facilitated the improvement of the corporate governance skills of directors of credit unions.

Measure: Provision of Corporate Governance Training Opportunities

Indicators:
- Directors of credit unions are trained in enterprise risk management (ERM)
- Training is provided to Board Audit Committees
- Funding is provided to encourage directors to continue to take courses In the Credit Union Director Achievement (CUDA) program
- Partial funding is provided for Directors to participate in the Directors Conference

Accomplishment 2007:

The Credit Union Deposit Guarantee Corporation achieved its objective of facilitating the improvement of the corporate governance skills of directors of credit unions by providing corporate governance training opportunities as follows:

- The Corporation sponsored training sessions on Enterprise Risk Management for Directors and The Role of the Audit Committee. There were 58 credit union directors representing 12 of 13 credit unions who attended these sessions.
- The Corporation proved funding of $21,539 representing 50% of the cost of Credit Union Director Achievement (CUDA) courses taken by directos of Credit Unions.
- The Corporation provided $10,138 to fund a directors' conference dealing with corporate governance issues such as Governance and Accountability.

There has been a significant increase in directors' participation in training as a result of support provided by the Corporation.

Issue 2: Standards of Sound Business Practices

Objective 1: By 2007, the Credit Union Deposit Guarantee Corporation will have developed and issued revised sound business practices for credit unions.

Measure: Development of sound business practices

Indicator:
- Approval of new standards of sound business practices.

Accomplishment 2007:

The Credit Union Deposit Guarantee Corporation achieved its objective in developing and revising sound business practices for credit unions. Standards of Sound Business Practices were approved by the Board of the Credit Union Deposit Guarantee Corporation and copies were forwarded to all credit union directors and senior management. These standards will assist credit unions in ensuring their compliance with sound business practices.

Issue 3: Improved Financial Reporting

Objective 1: By 2007, the Credit Union Deposit Guarantee Corporation will have initiated an improved financial reporting and monitoring system.

Measure: Initiate the design of the new financial reporting system.

Indicator:
- Report layouts and programming requirements are documented.

Accomplishment 2007:

The Credit Union Depoist Guarantee Corporation achieved its objective in improving its financial reporting and monitoring system by initiating the design of a new financial reporting and monitoring system by preparing new report layouts and documenting program requirements. These will form the basis for changes to the Corporation's financial reporting and monitoring system in 2008.

OPPORTUNITIES / CHALLENGES FOR 2008

Internal Challenges

Deficit Credit Union - Resolving the deficit of one credit union without severely impacting the Deposit Guarantee Fund of the Corporation.

External Opportunities

System Training - Assist in providing training to directors and staff of credit unions which will reduce risk to the System and the Credit Union Deposit Guarantee Corporation.

External Challenges

Corporate Governance of Credit Unions - It is difficult to attract qualified, competent Directors to Credit Union Boards.

Attracting Qualified Personnel - It is difficult to recruit qualified personnel to work in credit unions.

Financial Statements of

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

Year Ended December 31, 2007

AUDITOR'S REPORT

BRIAN T. SCAMMELL CA CBV
ASSURANCE VALUATION & ADVISORY

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 balance sheet of Credit Union Deposit Guarantee Corporation as at December 31, 2007 and the statements of income and fund balance and cash flow for the year then ended. These financial statements are the responsibility of the Corporation'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 Corporation as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements for the previous years were reported on by another firm of chartered accountants who issued an unqualified opinion.

Brian Scammell

St. John's, NL
March 31, 2008

CHARTERED ACCOUNTANT

BALANCE SHEET

		2007		2006
ASSETS				
Cash *(Note 6)*	$	-	$	1,021,974
Investments (Note 4)		5,870,372		4,693,174
Accounts receivable		6,248		16,615
Interest receivable		25,022		15,256
Harmonized sales tax recoverable		25,207		46,986
Prepaid expenses		3,496		4,197
Capital assets *(Note 5)*		29,246		40,086
	$	5,959,591	$	5,838,288
LIABILITIES				
Bank indebtedness	$	8,561	$	-
Accounts payable and accrued liabilities		489,131		539,633
		497,692		539,633
FUND BALANCE				
Deposit guarantee fund balance		5,461,899		5,298,655
	$	5,959,591	$	5,838,288

APPROVED ON BEHALF OF THE BOARD

Director

Director

STATEMENT OF INCOME AND FUND BALANCE

	2007	2006
REVENUE		
Assessments	$ 866,558	$ 807,972
Bonding insurance	285,054	276,083
Interest	254,251	227,319
Other	56,447	10,360
	1,462,310	1,321,734
EXPENSES		
Salaries and wages	394,992	377,227
Bonding insurance	234,385	211,369
Travel	40,240	45,043
Training	36,558	23,506
Professional fees	34,689	42,831
Meetings and conventions	31,023	36,284
Rental	29,517	30,895
Office	20,009	17,872
Vehicle	6,611	7,429
Telephone	10,273	9,682
Advertising and promotion	9,747	14,262
Directors fees	5,385	6,895
Amortization	11,868	8,892
Membership fees	1,230	690
Loss on sale of capital assets	-	1,397
	866,527	834,274
NET INCOME	595,783	487,460
DEPOSIT GUARANTEE FUND BALANCE - BEGINNING OF YEAR	5,298,655	5,293,889
	5,894,438	5,781,349
Assistance to credit unions	(432,539)	(482,694)
DEPOSIT GUARANTEE FUND BALANCE - END OF YEAR	$ 5,461,899	$ 5,298,655

STATEMENT OF CASH FLOWS

		2007		2006
OPERATING ACTIVITIES				
Net income	$	**595,783**	$	487,460
Items not affecting cash:				
Amortization of property, plant and equipment		**11,868**		8,892
Loss on disposal of capital assets		**-**		1,397
		607,651		497,749
Changes in non-cash working capital:				
Accounts receivable		**10,367**		2,551
Interest receivable		**(9,766)**		7,133
Prepaid expenses		**701**		1,541
HST payable (receivable)		**21,779**		(25,077)
Accounts payable and accrued liabilities		**(50,501)**		287,450
		(27,420)		273,598
Cash flow from operating activities		**580,231**		771,347
INVESTING ACTIVITIES				
Purchase of equipment		**(1,028)**		(31,136)
Proceeds on disposal of equipment		**-**		4,510
Purchase of investments		**(24,618,060)**		(30,504,730)
Redemption of investments		**23,440,861**		31,110,636
Cash flow from (used by) investing activities		**(1,178,227)**		579,280
FINANCING ACTIVITY				
Assistance to other credit unions		**(432,539)**		(482,694)
Cash flow used by financing activity		**(432,539)**		(482,694)
INCREASE (DECREASE) IN CASH FLOW		**(1,030,535)**		867,933
Cash - beginning of year		**1,021,974**		154,041
CASH (DEFICIENCY) - END OF YEAR *(Note 6)*	$	**(8,561)**	$	1,021,974
CASH FLOW 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

Effective January 1, 2007, the Corporation adopted the following new accounting standards that were issued by the Canadian Institute of Chartered Accountants (the "CICA"): Handbook Section 1530, Comprehensive Income, Section 3855, Financial Instruments – Recognition and Measurement, Section 3251, Equity and Section 3861, Financial Instruments – Disclosure and Presentation.

Impact upon adoption of these standards

These standards were applied retroactively as of January 1, 2007 without restatement of prior year's figures. There were no transition adjustments attributable to the remeasurement of financial assets and financial liabilities at fair value which would have been recognized in opening fund balance or opening accumulated other comprehensive income ("OCI") as of January 1, 2007 as the adjustments were not considered significant to these financial statements. Financial asset and financial liability classifications made by the Corporation as of January 1, 2007 have been disclosed in Note 3.

Comprehensive income

Section 1530 introduces comprehensive income, which consists of net income and other comprehensive income. OCI represents changes in equity during a period and includes unrealized gains and losses on financial assets classified as available for sale.

Financial instruments – recognition and measurement

Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. It requires that financial assets and liabilities, including derivatives, be recognized on the balance sheet when the Corporation becomes a party to the contractual provisions of the financial instrument or non-financial derivative contract. Under this standard, all financial instruments are required to be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held for trading, available for sale, held to maturity, loans and receivables, or other financial liabilities. Transaction costs are capitalized on initial recognition, except financial instruments designated as held for trading where transaction costs are expensed.

Financial assets and financial liabilities held for trading are measured at fair value with changes in those fair values recognized in other income. Financial assets held to maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method of amortization. Available for sale financial assets are presented as investments and measured at fair value with unrealized gains and losses, being recognized in OCI. Investments in equity instruments classified as available for sale that do not have a quoted market price in an active market are measured at cost. Derivative instruments are recorded at fair value, including those derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts. Changes in the fair values of derivative instruments are recognized in other income with the exception of derivatives designated in effective cash flow hedges.

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2. CHANGES IN ACCOUNTING POLICIES *(continued)*

Financial instruments - disclosure and presentation

Section 3861 establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the relevant information to be disclosed.

Equity

Section 3251 establishes standards for the presentation of equity and changes in equity during the reporting period.

3. OTHER SIGNIFICANT ACCOUNTING POLICIES

Financial instruments

Financial assets and liabilities are initially recorded at fair value and their subsequent measurement is dependent on their classification as described below. The classification depends upon the purpose for which the financial assets were acquired or issued, their characteristics and the Corporations' designation of these financial instruments. Settlement date accounting is used.

Classification

Held for Trading

Held for trading financial assets 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 fluctutations including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in investment income.

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 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. As of December 31, 2007, the Corporation has not classified any of its financial assets as held to maturity.

Available for Sale

Available for sale financial assets are those non-deriviative 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.

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

Loans and receivables

Loans and receivables are recorded at amortized cost using the effective interest method.

Other Liabilities

Other liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities other than derivative instruments.

The Corporation has classified its current financial instruments as follows:

Cash	Held for trading
Investments	Loans and receivables
Receivables	Loans and receivables
Bank indebtedness	Other liabilities
Accounts payable and accrued liabilities	Other liabilities

Cash

Cash consists of balances with banks.

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 Corporation 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.

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3. OTHER SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Assistance to credit unions

Assistance to credit unions is recorded only when it can be reasonably determined by the Corporation that such a payment will be required and when the Board of Directors has assessed the reasonableness of such a charge and authorized the assistance as a commitment of the Fund. The determination of the assistance requires the exercise of judgement because the precise amount, method and timing of such assistance is dependent on future events. The amount of actual assistance paid and possible future assistance is disclosed in the financial statements.

Pension costs

Employees of the Corporation other than the 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 $18,942 (2006- $18,062).

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 $11,226 (2006- $10,898.)

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.

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 ans 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

	2007	2006
Credit Union Central of Nova Scotia	**$ 1,000**	$ 1,000
Newfoundland & Labrador Credit Union	**100**	100
Concentra Financial, cash account, 4.1%	**1,004,272**	
Concentra Financial, 4.85%	**1,065,000**	
Concentra Financial, 5.00%	**3,800,000**	
Bank of Montreal, 4.28%	-	1,042,787
Bank of Montreal, 4.27%	-	3,649,287
	$ 5,870,372	$ 4,693,174

5. CAPITAL ASSETS

		Cost		Accumulated amortization		2007 Net book value		2006 Net book value
Motor vehicles	$	28,733	$	10,883	**$**	**17,850**	$	25,500
Computer equipment		67,547		58,644		**8,903**		11,470
Furniture and fixtures		24,643		22,150		**2,493**		3,116
	$	120,923	$	91,677	**$**	**29,246**	$	40,086

6. CASH

		2007		2006
Cash	**$**	**-**	$	1,021,974
Bank indebtedness		**(8,561)**		-
	$	**(8,561)**	$	1,021,974

7. 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 10 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, 2007, the balance of the guarantee is $702,670 (2006 - $926,758). Net payouts paid or payable by the Corporation under the guarantee for the year ended December 31, 2007 totalled $152,539 (2006-$202,694).

8. 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.

9. 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
2008	$	73,257
2009		319,521
2010		463,065
2014		438,667
2015		362,558
2026		350,333
2027		250,430
	$	2,257,831

The undepreciated capital cost for income tax purposes of the Corporation's depreciable assets exceeds the net book value by $92,077.

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