

# CREDIT UNION

DEPOSIT GUARANTEE CORPORATION

Protecting Credit Union  
Member Deposits for Over 30 Years



# ANNUAL BUSINESS REPORT 2018



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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 2018.

I would also like to take this opportunity to acknowledge the retirements of the outgoing Chair, Julian McCarthy and former Chief Executive Officer, William Langthorne. Mr. McCarthy in his role as the Assistant Deputy Minister of Regulatory Affairs, Service NL, with the Government of Newfoundland and Labrador held the position of Chair of the Board for the Corporation from April 2011 until his retirement in January 2019. Mr. Langthorne was the CEO of the Credit Union Deposit Guarantee Corporation, Superintendent of Credit Unions, and Secretary Treasurer of the Board from 1988 until his retirement in March 2019. I wish to thank them both for their hard work and dedication to the credit union system and wish them all the best in their retirement.

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 attended eleven meetings during 2018: five regular meetings, five meetings with boards of credit unions, and a meeting with credit union board chairs. Individual directors of the Corporation also attended eight 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 the Credit Union Prudential Supervisors Association (CUPSA), the International Credit Union Regulators Network (ICURN), and the National Conference for Canada's 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 for 2018.

## CHAIRPERSON'S REPORT (cont.)

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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,



**MICHAEL DELANEY**

Chair

## OVERVIEW

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In 2018, the Credit Union Deposit Guarantee Corporation had six employees, five located in Marystown and one in Mount Pearl. The Board of Directors of the Corporation has six members, including three selected from credit union system nominees. The Chief Executive Officer is also the Superintendent of Credit Unions and Secretary/Treasurer of the Board. The mandate of the Credit Union Deposit Guarantee Corporation is outlined in Section 134 of the *Credit Union Act, 2009*. 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.

The Corporation is self-funding and is operated outside of Government's budgetary process. The Board of Directors 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. Primary operating expenses include salaries and benefits, bonding insurance and other operating costs such as travel and administration.

## HIGHLIGHTS AND PARTNERSHIPS

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The Credit Union Deposit Guarantee Corporation continued to perform well in 2018.

### **Financial:**

The Corporation's reported net income was \$1,392,993 in 2018 as compared to \$1,198,221 in 2017. The increase in 2018 net income is primarily a result of the following:

- Assessments increased due to an increase in insurable deposits
- Interest income increased due to a more favourable interest rate
- Salary expense declined due to the elimination of one position

The Deposit Guarantee Fund Balance at the end of 2018 was \$11,520,052 as compared to \$10,127,059 at the end of 2017. The Corporation reported assets of \$11,755,027 in 2018 compared to \$10,423,719 in 2017.

The audited financial statements of the Corporation are contained in pages 9 to 22 of this report.

### **Operational:**

In accordance with its legislative mandate, the Corporation continued to monitor and examine credit unions in 2018.

The Corporation completed four (4) examinations of credit unions in 2018 covering seven (7) 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 credit union directors training by covering 50% of the cost of training taken by credit union directors amounting to \$21,407.

The Corporation is Master Policy Holder for six insurance policies. In 2018, there were a total of twelve (12) claims filed: six (6) On-Line Banking claims, one (1) counterfeit cheque claim, one (1) materially altered cheque claim, two (2) plastic card claims, one (1) cheque forgery claim and one (1) errors and omissions claim. The counterfeit cheque, materially altered cheque, plastic card and errors and omissions claims were all under the deductible so no monies were received for these claims.

After insurance deductibles, the net amount of claims paid out to credit unions was \$34,958 in 2018.

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## **HIGHLIGHTS AND PARTNERSHIPS** (CONTINUED...)

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The Corporation processed 64 bonding applications (57 staff and 7 directors) in 2018. Forty-nine (49) were approved unconditionally, five (5) were approved conditionally and 3 were withdrawn before final approval was granted.



## BUSINESS ISSUES

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The following section presents the business issues 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 its 2017-2019 three year business plan.

### **Issue: Legislative Review**

Business Plan 2017-2019 focused on one issue, making recommendations for amendments to legislation that are appropriate to the needs of the regulator, the Credit Union Deposit Guarantee Corporation, so that it can effectively regulate the credit union sector and secondly, to ensure legislation is flexible enough to allow credit unions to compete in an ever-changing financial industry environment without negatively impacting the strength, stability and success of the credit union system. Effective credit union legislation will have a positive impact on the success of the Credit Union Deposit Guarantee Corporation and the credit union system.

### **Goal**

By December 31 2019, the Credit Union Deposit Guarantee Corporation will have completed a comprehensive review of credit union legislation and made recommendations to the Minister.

### ***Indicators:***

- Credit Union Act, 2009 and its regulations reviewed
- Summary of potential legislative changes prepared
- Credit union legislation in other jurisdictions researched
- Stakeholders consulted
- Final summary of changes prepared
- Regional meetings on final changes held
- Changes recommended to Minister

## **BUSINESS ISSUES (CONTINUED...)**

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### **Objective for the year 2018:**

By December 31, 2018, the Credit Union Deposit Guarantee Corporation will have researched credit union legislation in other jurisdictions and consulted with stakeholders.

#### ***Indicators:***

- Credit union legislation in other jurisdictions researched
- Stakeholders consulted
- Final summary of recommended changes prepared
- Regional meetings on final recommended changes held

#### ***Results achieved:***

The preliminary list of recommended changes to the legislation that was approved by the board of directors of the Credit Union Deposit Guarantee Corporation in 2017 was sent to the credit union boards and senior management for comment. Credit unions were requested, in addition to commenting on the recommended changes, to provide a list of their own recommended changes to legislation. The Board of the Credit Union Deposit Guarantee Corporation received feedback from all credit unions and comments on the proposed changes and new recommended changes were reviewed.

Where necessary, the Credit Union Deposit Guarantee Corporation reviewed other provincial legislation with respect to the changes being recommended. The Credit Union Deposit Guarantee Corporation finalized a draft of proposed changes. Instead of holding regional meetings the finalized draft of recommended changes was presented at the Newfoundland and Labrador Directors conference held in St. John's. All credit unions were represented at the presentation with over 60 directors and senior management in attendance.

Credit unions were given another two weeks to provide further feedback if there was a particular change that caused them concern. The Corporation finalized its list of recommendations after considering follow up representations by the credit union system.

### **Objective for the year 2019:**

By December 31, 2019, the Credit Union Deposit Guarantee Corporation will have made recommendations to the minister.

#### ***Indicator:***

- Recommended changes to legislation presented to the minister.

## **OPPORTUNITIES AND CHALLENGES AHEAD**

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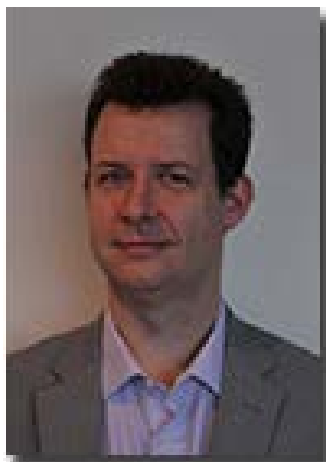
### **Opportunities**

1. To support the development of credit union directors, management and staff in the Newfoundland and Labrador credit union system by financially 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 continued prosperity of the credit union system by ensuring legislation is appropriate to the needs of a growing and ever changing credit union system.

### **Challenges**

1. To ensure legislation is appropriate to the needs of a growing and ever-changing credit union system.
2. 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.
3. To ensure the knowledge level at the Corporation is maintained given the retirement of the Chair, CEO and one system nominated director.

## APPENDIX A - DIRECTOR PROFILES



**Michael Delaney**  
Chair

Michael Delaney is the Assistant Deputy Minister of Regulatory Affairs, Department of Service NL, Government of Newfoundland and Labrador. Mr. Delaney assumed the position of Chair of the Credit Union Deposit Guarantee Corporation effective February 1, 2019. Mr. Delaney has been an employee of the Government of Newfoundland and Labrador since 2011 serving the last seven years as Superintendent of Pensions. Prior to joining government, Mr. Delaney worked 10 years as a pension consultant with Morneau Shepell providing actuarial services. Mr. Delaney has a Bachelor of Science in Actuarial Mathematics and Statistics from Heriot-Watt University, Edinburgh, Scotland.



**Clayton Handrigan**  
Vice-Chair

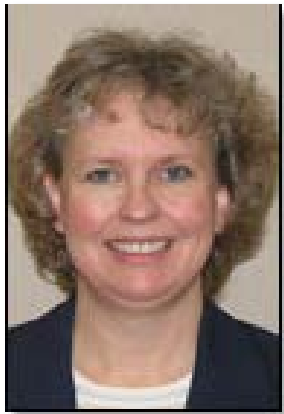
Clayton Handrigan is a retired educator, having spent 30 years as a teacher, guidance counselor, and an administrator. He holds a Bachelor of Arts (Education) degree and a Bachelor of Arts degree from Memorial University and a Master of Education degree from the University of Toronto. He served on the Board of Directors of the Newfoundland and Labrador Credit Union for 12 years, three of which he was the President and Chair of the Board. Mr. Handrigan is a Credit Union System nominee and has served as a director of the Credit Union Deposit Guarantee Corporation for twelve (12) years. His current term is scheduled to expire December 15, 2019.



**Anita Wilkins**  
Secretary Treasurer  
CEO/Superintendent of Credit Unions

Anita Wilkins has a diverse background within the financial services industry having worked in areas such as Retail Banking, Corporate Audit, Process Re-engineering and Wealth Management. A career spanning over twenty years, she has held progressive leadership positions with local, regional and national responsibilities. Anita holds an MBA and designations in both Internal Audit and Process Re-engineering.

## APPENDIX A - DIRECTOR PROFILES (CONTINUED...)



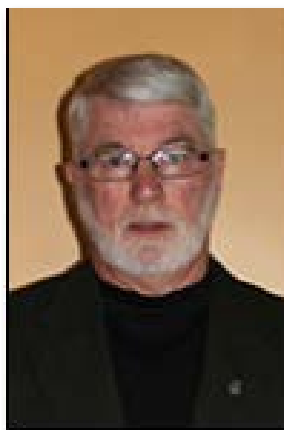
**Maureen McCarthy**

Maureen McCarthy is a retired employee of the Government of Newfoundland and Labrador. Prior to her retirement Ms. McCarthy was Director of Pensions, Department of Finance, Government of Newfoundland and Labrador. She is a Chartered Professional Accountant and has a Bachelor of Commerce (Honours) degree from Memorial University. Ms. McCarthy has been on the Board of the Credit Union Deposit Guarantee Corporation since 2000 as a Government appointee.



**Robert Dicks**

Robert Dicks is a retired employee of Newfoundland Power where he had worked 36 years as an Electrical Engineer Technologist. He was an active volunteer with the Reddy Kilowatt Credit Union for over 40 years, 20 years as president /chair of the Board of Directors. Mr. Dicks is a credit union system nominee and was appointed as a director of the Corporation on August 22, 2018. His term is scheduled to expire on August 22, 2021.



**Brendan Doyle**

Brendan Doyle is a retired educator, with tenure as a teacher, department head, guidance counsellor, administrator, program specialist, and President of Newfoundland and Labrador Teachers' Association. He holds a Bachelor of Arts degree from St. Francis Xavier University, a Bachelor of Education and Master of Education in Administration degrees from Memorial University, and a Master of Education in Guidance and Counselling from the University of New Brunswick. Mr. Doyle served ten years on the Board of Directors of Codroy Valley/Leading Edge Credit Union. Mr. Doyle is credit union system nominee and has been on the Board of the Credit Union Deposit Guarantee Corporation for four (4) years. His current term is scheduled to expire on May 4, 2020.

## APPENDIX B - AUDITED FINANCIAL STATEMENTS

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*Financial Statements of*

**CREDIT UNION DEPOSIT GUARANTEE CORPORATION**

*Year Ended December 31, 2018*

**CREDIT UNION DEPOSIT GUARANTEE CORPORATION**

**Financial Statements**

**Year Ended December 31, 2018**

**CREDIT UNION DEPOSIT GUARANTEE CORPORATION**

**Index to Financial Statements**

**Year Ended December 31, 2018**

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## INDEPENDENT AUDITOR'S REPORT

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To the Directors of Credit Union Deposit Garantie Corporation

### *Opinion*

I have audited the financial statements of Credit Union Deposit Guarantee Corporation (the Corporation), which comprise the statement of financial position as at December 31, 2018, and the statements of comprehensive income and retained earnings and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### *Basis for Opinion*

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Corporation in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with those requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### *Responsibilities of Management and Those Charged with Governance for the Financial Statements*

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

### *Auditor's Responsibilities for the Audit of the Financial Statements*

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

(continues)

Independent Auditor's Report to the Directors of Credit Union Deposit Guarantee Corporation *(continued)*

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

St. John's, NL  
March 28, 2019



Brian T. Scammell Professional Corporation  
Chartered Professional Accountant

**CREDIT UNION DEPOSIT GUARANTEE CORPORATION**

**Statement of Financial Position**

**December 31, 2018**

	2018	2017
<b>ASSETS</b>		
Cash	\$ 18,193	\$ 42,756
Marketable securities ( <i>Market value \$11,650,110; 2017 - \$10,300,110</i> ) (Note 4)	11,650,110	10,300,110
Accounts receivable	41	885
Interest receivable	61,884	48,942
Harmonized sales tax recoverable	18,374	21,771
Prepaid expenses	448	1,637
Property, plant and equipment ( <i>Net of accumulated amortization</i> ) (Note 5)	5,977	7,618
	<b>\$ 11,755,027</b>	<b>\$ 10,423,719</b>
<b>LIABILITIES AND FUND BALANCE</b>		
Accounts payable and accrued liabilities	\$ 234,975	\$ 296,660
<b>FUND BALANCE</b>	<b>11,520,052</b>	<b>10,127,059</b>
<b>LIABILITIES AND FUND BALANCE</b>	<b>\$ 11,755,027</b>	<b>\$ 10,423,719</b>

**ON BEHALF OF THE BOARD**

 Director

 Director

See notes to financial statements

**CREDIT UNION DEPOSIT GUARANTEE CORPORATION****Statement of Comprehensive Income and Fund Balance****Year Ended December 31, 2018**

	<b>2018</b>	<b>2017</b>
<b>FEEES</b>		
Assessments	\$ 1,848,504	\$ 1,806,845
Bonding insurance	299,478	294,673
Interest	239,385	164,740
Other	1,051	900
	<b>2,388,418</b>	<b>2,267,158</b>
<b>EXPENSES</b>		
Salaries and wages	543,276	623,753
Insurance	248,187	243,254
Training	42,600	20,194
Rental	36,810	36,810
Meetings and conventions	33,808	38,209
Travel	20,630	35,203
Data access costs	15,124	14,683
Office	14,528	14,961
Directors fees	12,240	9,624
Telephone	10,859	11,741
Professional fees	7,956	10,660
Advertising and promotion	7,346	7,195
Amortization	1,963	2,613
Loss on disposal of assets	98	37
	<b>995,425</b>	<b>1,068,937</b>
<b>NET INCOME</b>	<b>1,392,993</b>	<b>1,198,221</b>
<b>RETAINED EARNINGS - BEGINNING OF YEAR</b>	<b>10,127,059</b>	<b>8,928,838</b>
<b>RETAINED EARNINGS - END OF YEAR</b>	<b>\$ 11,520,052</b>	<b>\$ 10,127,059</b>

**CREDIT UNION DEPOSIT GUARANTEE CORPORATION****Statement of Cash Flows****Year Ended December 31, 2018**

	<b>2018</b>	<b>2017</b>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 1,392,993	\$ 1,198,221
Items not affecting cash:		
Amortization of property, plant and equipment	1,963	2,613
Loss on disposal of property, plant and equipment	-	37
Interest	(239,385)	(164,740)
	<b>1,155,571</b>	<b>1,036,131</b>
Changes in non-cash working capital:		
Accounts receivable	844	(385)
Interest received	226,443	148,729
Accounts payable and accrued liabilities	(61,685)	20,516
Prepaid expenses	1,189	(1,217)
Harmonized sales tax payable	3,397	(2,130)
	<b>170,188</b>	<b>165,513</b>
Cash flow from operating activities	<b>1,325,759</b>	<b>1,201,644</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(322)	-
Proceeds on disposal of property, plant and equipment	-	50
Proceeds from sale of marketable securities	10,300,000	570,000
Purchase of marketable securities	(11,650,000)	(1,770,000)
Cash flow used by investing activities	<b>(1,350,322)</b>	<b>(1,199,950)</b>
<b>INCREASE (DECREASE) IN CASH FLOW</b>	<b>(24,563)</b>	<b>1,694</b>
Cash - beginning of year	42,756	41,062
<b>CASH - END OF YEAR</b>	<b>\$ 18,193</b>	<b>\$ 42,756</b>
<b>CASH FLOWS SUPPLEMENTARY INFORMATION</b>		
Interest received	\$ 12,943	\$ 16,011

See notes to financial statements

# CREDIT UNION DEPOSIT GUARANTEE CORPORATION

## Notes to Financial Statements

Year Ended December 31, 2018

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### 1. REPORTING ENTITY

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

### 2. BASIS OF PREPARATION

#### *Statement of compliance*

These financial statements are general purpose financial statements which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements for the year ended December 31, 2018 were authorized for issue by the Corporation's Board of Directors on March 28, 2019.

#### *Basis of preparation*

These financial statements are presented in Canadian dollars which is the Corporation's functional currency. They are prepared under the historical cost basis except for financial instruments at fair value through profit or loss ("FVTPL") and fair value through other comprehensive income ("FVTOCI"), which are stated at their fair values.

#### *Use of significant accounting judgments, estimates and assumptions*

The preparation of these financial statements in conformity with IFRS requires management to make judgements, estimates, and assumptions that affect the application of policies and reported amounts of assets and liabilities, and disclosures of contingent assets and contingent liabilities at the date of these financial statements, and the reported amounts of revenues and expenses during the year. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from estimates made in these financial statements.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS have a significant effect on these financial statements. Outlined below are areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the Corporation's financial statements:

#### *(a) Fair Value of Financial Instruments*

Where the fair values of financial assets and financial liabilities recorded on the Statement of Financial Position cannot be derived from observable markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment is required to establish fair values. The judgements include considerations of liquidity and model inputs such as volatility for longer dated derivatives, discount rates and prepayment rates. The valuation of financial instruments is discussed in more detail in Note 6.

#### *(b) Provisions*

The amount recognized as accounts payable and accrued liabilities is the best estimate of the consideration required to settle the related liability, taking into account the risks and uncertainties surrounding the obligation.

*(continues)*

# CREDIT UNION DEPOSIT GUARANTEE CORPORATION

## Notes to Financial Statements

Year Ended December 31, 2018

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

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Management believes the estimates used in preparing these financial statements are reasonable. Actual results in the future may differ materially from those reported.

Assistance to credit unions, which is included in accounts payable and accrued liabilities, is management's best estimate of the consideration required to settle the related liability, taking into account the risks and uncertainties surrounding the obligation.

#### *(c) Economic lives of property, plant and equipment*

Management determines the estimated useful lives of its property, plant and equipment based on historical experience of the actual lives of property, plant and equipment of similar nature and functions, and reviews these estimates at the end of each reporting period.

#### *New standards implemented*

##### *(a) Financial Instruments*

From January 1, 2018, the Corporation has applied IFRS 9 and classifies its financial instruments in the following measurement categories: FVTPL; FVOCI; or amortized cost. Management determines the classification of its financial instruments at initial recognition. IFRS 9 replaces IAS 39 - Financial Instruments: Recognition and Measurement. ("IAS 39")

The Corporation has adopted IFRS 9 with a date of transition of January 1, 2018, which resulted in changes in the Corporation's policies for recognition, classification and measurement of financial assets and liabilities and impairment of financial assets.

As permitted by the transitional provisions of IFRS 9, the Corporation elected not to restate comparative figures if applicable; however, there were no adjustments to the carrying amounts of financial assets and liabilities at the date of transition that were recognized in the opening retained surplus of the current period.

The Corporation has applied the requirements of IFRS 9 to instruments that have not been derecognized as of January 1, 2018 and has not applied the requirements to instruments that have already been derecognized as of January 1, 2018. Comparative amounts in relation to instruments that have not been derecognized as of January 1, 2018 have been restated where appropriate.

Classification and measurement - Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. Financial liabilities are classified in a similar manner to under IAS 39 except that for financial liabilities measured at fair value, fair value changes due to changes in the Corporation's credit risk are presented in other comprehensive income (loss) instead of profit or loss unless this would create an accounting mismatch.

Impairment - The measurement of impairment of financial assets is based on an expected credit loss model. It is no longer necessary for a triggering event to have occurred before credit losses are recognized.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Corporation. Further details on the specific IFRS 9 accounting policies applied are described in more detail in Note 3.

##### *(i) Classification and measurement of financial instruments*

The measurement and classification categories of financial assets in accordance with IFRS 9 at January 1, 2018 are compared as follows:

*(continues)*

# CREDIT UNION DEPOSIT GUARANTEE CORPORATION

## Notes to Financial Statements

Year Ended December 31, 2018

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

<u>Financial Instrument</u>	<u>Category IAS 39</u>	<u>Category Under IFRS 9</u>
Cash	Held for trading	Amortized cost
Marketable securities	Held to maturity	Amortized cost:
Receivables	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost

The above financial assets have been reclassified to new categories under IFRS 9, as their previous categories under IAS 39 were "retired", with no changes to their measurement basis:

(i) Those previously classified as loans and receivables are now classified and measured at amortized cost.

(ii) Those previously classified as held to maturity are now classified and measured at amortized cost.

There were no changes to the classification and measurement of financial liabilities, as the financial liabilities which were classified as other liabilities (amortized cost) remain as other financial liabilities (amortized cost).

(ii) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The Corporation performed an analysis of its business models for managing financial assets and their cash flow characteristics. Refer to Note 3 for more detailed information regarding the new classification requirements of IFRS 9.

#### *(b) Revenue for Contracts with Customers*

In May 2014, the IASB issued IFRS 15 - Revenue from Contracts with Customers ("IFRS 15") which replaces IAS 11 - Construction Contracts, IAS 18 - Revenue and IFRIC 13 - Customer Loyalty Programmes, as well as various other interpretations regarding revenue. IFRS 15 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 also contained enhanced disclosure requirements.

It is applied retroactively for annual periods beginning on or after January 1, 2018. The implementation of the IFRS 15 standard did not affect the Corporation.

IFRS 15 covers only revenue arising from contracts with customers. Under IFRS 15, a member of the Corporation is a party that has contracted with the Corporation to obtain goods or services that are an output of the Corporation's ordinary activities in exchange for consideration. Unlike the scope of IAS 18, the recognition and measurement of interest income and dividend income from debt and equity investments are no longer within the scope of IFRS 15. Instead, they are within the scope of IFRS 9.

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

Certain new standards, interpretations, amendments and improvements to the existing standards have been issued by the IASB but are not yet effective for the year ended December 31, 2018, and have not been applied in preparing these financial statements:

*(continues)*



# CREDIT UNION DEPOSIT GUARANTEE CORPORATION

## Notes to Financial Statements

Year Ended December 31, 2018

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

#### *(a) Leases*

On January 13, 2016, the IASB issued IFRS 16 Leases which provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It supersedes IAS 17 Leases and its associative interpretative guidance. Significant changes were made to lessee accounting with the distinction between operating and finance leases removed and assets and liabilities recognized in respect of all leases (subject to limited exceptions for short-term leases and leases of low value assets.) In contrast, IFRS 16 does not include significant changes to the requirements for lessors. IFRS 16 is effective January 1, 2019, with earlier application permitted for companies that have also adopted IFRS 15 Revenue From Contracts with Customers. Management of the Corporation is assessing the potential impact of this new standard.

### 3. OTHER SIGNIFICANT ACCOUNTING POLICIES

#### *Financial instruments*

*The relevant accounting policies from January 1, 2018 related to the financial assets and liabilities are as follows:*

Financial assets and financial liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instrument.

Recognized financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

#### *(a) Financial assets*

All financial assets are recognized and derecognized on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned.

All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding, are subsequently measured at amortized cost;

The measurement and classification categories of financial assets in accordance with IFRS 9 are outlined in Note 2 under New Standards Implemented, Financial Instruments. The Corporation has no debt instruments that are subsequently measured at FVTOCI.

For the purpose of the SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

*(continues)*

# CREDIT UNION DEPOSIT GUARANTEE CORPORATION

## Notes to Financial Statements

Year Ended December 31, 2018

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

*Contractual cash flows that are SPPI are consistent with a basic lending arrangement.*

Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Corporation determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Corporation's business model does not depend on management's intentions for an individual instrument, therefore the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

The Corporation has business models for managing its financial instruments which reflect how the Corporation manages its financial assets in order to generate cash flows. The Corporation's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

The Corporation considers all relevant information available when making the business model assessment. However this assessment is not performed on the basis of scenarios that the Corporation does not reasonably expect to occur, such as so-called "worst case" or "stress case" scenarios.

#### (b) Debt instruments at amortized cost

The Corporation assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Corporation's business model for managing the asset.

For an asset to be classified and measured at amortized cost, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding.

At initial recognition of a financial asset, the Corporation determines whether newly recognized financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Corporation reassesses its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting period, the Corporation has not identified a change in business models.

Debt instruments are measured at amortized cost using the effective interest method, and are subject to impairment. Interest income on debt instruments at amortized cost is recognized in interest income on the statement of comprehensive income.

The effective interest method is a method of calculating the amortized cost of a financial asset or liability, and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortized cost before any loan loss allowance) or to the amortized cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. When the Corporation revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognized in net income.

*(continues)*

# CREDIT UNION DEPOSIT GUARANTEE CORPORATION

## Notes to Financial Statements

Year Ended December 31, 2018

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

#### (c) Modification and derecognition of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date.

When a financial asset is modified, the Corporation assesses whether this modification results in derecognition. In accordance with the Corporation's policy, a modification results in derecognition when it gives rise to substantially different terms.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Corporation determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

- the remaining lifetime probability of default estimated based on data at initial recognition and the original contractual terms; with
- the remaining lifetime probability of default at the reporting date based on the modified terms.

The Corporation derecognizes a financial asset only when the contractual rights to the asset's cash flows expire, or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Corporation neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Corporation recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Corporation retains substantially all the risks and rewards of ownership of a transferred financial asset, the Corporation continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset measured at amortized cost other than in its entirety (e.g. when the Corporation retains an option to repurchase part of a transferred asset), the Corporation allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized is recognized in income.

#### (d) Financial Liabilities

The Corporation is required to classify all financial liabilities as either financial liabilities 'at FVTPL' or 'other financial liabilities'. All of the Corporation's financial liabilities are classified as other financial liabilities.

#### (e) Derecognition of financial liabilities

The Corporation derecognizes financial liabilities when, and only when, the Corporation's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

*(continues)*

# CREDIT UNION DEPOSIT GUARANTEE CORPORATION

## Notes to Financial Statements

Year Ended December 31, 2018

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

*The accounting policies from January 1, 2017 to December 31, 2017 and the year then ended related to the financial assets and liabilities was as follows:*

#### *Financial instruments*

##### Classification

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

##### Held for Trading

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

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

##### Held to Maturity

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

##### Available for Sale

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

##### 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.

*(continues)*

# CREDIT UNION DEPOSIT GUARANTEE CORPORATION

## Notes to Financial Statements

Year Ended December 31, 2018

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

#### 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.

*The following accounting policies were applicable for the years ended December 31, 2018 and December 31, 2017:*

#### *Cash*

Cash consists of balances with banks.

#### *Capital assets*

Capital assets are stated at cost or deemed cost less accumulated amortization. Capital assets are amortized over their estimated useful lives on a declining balance basis at the following rates and methods:

Computer equipment	30%	declining balance method
Furniture and fixtures	20%	declining balance method
Signage	20%	declining balance method

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

Capital assets acquired during the year but not placed into use are not amortized until they are placed into use.

#### *Severance pay*

Severance pay, which is included with accounts payable and accrued liabilities, is accrued for all employees for whom the right to such compensation is vested.

#### *Revenue recognition*

The Corporation recognizes assessment revenue based on a percentage of insured deposits of individual credit unions operating within the Province of Newfoundland & Labrador. Interest revenue is recognized based on the investment interest collected and accrued during the year, and bonding revenue is recognized based on a percentage of individual credit unions' assets plus a \$60,000 fee that is allocated to the Newfoundland and Labrador credit unions based on a pre-determined formula.

*(continues)*

# CREDIT UNION DEPOSIT GUARANTEE CORPORATION

## Notes to Financial Statements

Year Ended December 31, 2018

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

#### *Assistance to credit unions*

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

#### *Pension costs*

Employees of the Corporation other than the Chief Executive Officer are included in the Public Service Pension Plan of the Government of Newfoundland and Labrador. Contributions to the plans are required from both the employees and the Corporation. The annual contributions for pension are recognized in the accounts on a current basis. Contributions to this plan totalled \$ 42,932 (2017- \$39,922).

The Corporation also contributed to a private registered retirement savings plan for the Chief Executive Officer based on a percentage of his annual salary. Contributions to this plan totalled \$8,368 (2017 - \$8,368)

#### *Future income taxes*

Income taxes are reported using the future income taxes method, as follows: current income tax expense is the estimated income taxes payable for the current year after any refunds or the use of losses incurred in previous years, and future income taxes reflect:

- the temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts used for tax purposes;
- the benefit of unutilized tax losses that will more likely than not be realized and carried forward to future years to reduce income taxes.

Future income taxes are estimated using the rates enacted by tax law and those substantively enacted for the years in which future income taxes assets are likely to be realized, or future income tax liabilities settled. The effect of a change in tax rates on future income tax assets and liabilities is included in earnings in the period when the change is substantively enacted.

### 4. MARKETABLE SECURITIES

	2018	2017
BMO term deposit, 2.10%, maturing April 12, 2019	\$ 650,000	\$ -
BMO term deposit, 1.50%, matured April 12, 2018	-	1,200,000
Concentra Financial term deposit, 2.30%, maturing April 12, 2019	11,000,000	-
Concentra Financial term deposit, 1.69%, matured April 11, 2018	-	8,500,000
Concentra Financial term deposit, 1.00%, matured April 27, 2018	-	600,000
Newfoundland and Labrador Credit Union share	100	100
Concentra share	10	10
	<b>\$ 11,650,110</b>	<b>\$ 10,300,110</b>

**CREDIT UNION DEPOSIT GUARANTEE CORPORATION**

**Notes to Financial Statements**

**Year Ended December 31, 2018**

**5. PROPERTY, PLANT AND EQUIPMENT**

<b>2018</b>				
	<b>Computers</b>	<b>Signage</b>	<b>Furniture and Fixtures</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Cost</b>				
Balance, beginning of year	83,521	1,547	36,970	122,038
Additions	322	-	-	322
Disposals	-	-	-	-
<b>Balance, end of year</b>	<b>83,843</b>	<b>1,547</b>	<b>36,970</b>	<b>122,360</b>
<b>Accumulated Depreciation</b>				
Balance, beginning of year	79,759	1,091	33,570	114,420
Reductions on disposal				-
Amortization expense	1,192	91	680	1,963
<b>Balance, end of year</b>	<b>80,951</b>	<b>1,182</b>	<b>34,250</b>	<b>116,383</b>
<b>Net book value</b>	<b>2,892</b>	<b>365</b>	<b>2,720</b>	<b>5,977</b>

<b>2017</b>				
	<b>Computers</b>	<b>Signage</b>	<b>Furniture and Fixtures</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Cost</b>				
Balance, beginning of year	84,764	1,547	36,970	123,281
Additions	-	-	-	-
Disposals	1,243	-	-	1,243
<b>Balance, end of year</b>	<b>83,521</b>	<b>1,547</b>	<b>36,970</b>	<b>122,038</b>
<b>Accumulated Depreciation</b>				
Balance, beginning of year	79,266	977	32,720	112,963
Reductions on disposal	1,156			1,156
Amortization expense	1,649	114	850	2,613
	79,759	1,091	33,570	114,420
<b>Net book value</b>	<b>3,762</b>	<b>456</b>	<b>3,400</b>	<b>7,618</b>

**6. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Corporation's financial instruments are comprised of cash, investments, receivables and accounts payable.

*(continues)*

# CREDIT UNION DEPOSIT GUARANTEE CORPORATION

## Notes to Financial Statements

Year Ended December 31, 2018

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### 6. FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

Cash is reported at fair value on the balance sheet. Receivables and accounts payable are reported at amortized cost which approximates fair value due to their short term nature. Investments are reported at amortized cost using the effective interest method which approximates their fair value.

### 7. NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS

The Corporation is exposed to the following risks as a result of holding financial instruments: credit risk, market risk and liquidity risk. The following is a description of those risks and how the Corporation manages the exposure to them.

#### *Credit Risk*

Credit risk is the risk that a financial loss will occur due to the failure of a counterparty to discharge its contractual commitment or obligation to the Corporation. Credit risk may arise principally through its investments included in the Corporation's asset portfolio.

The Corporation manages this risk by making investments in accordance with the investment policy established by the Board of Directors which permits the Corporation to invest in high quality, liquid short-term investments. Equity investments are not permitted.

#### *Market Risk*

Market risk arises from changes in interest rates on investments in its portfolio that affect the Corporation's net interest income. The Corporation's goal is to maximize its return on these portfolios, without taking unreasonable risk and retaining a high degree of liquidity.

The Corporation manages this risk by investing in securities that are not susceptible to significant changes in rates of return to the Corporation caused by changes in market values of the investments.

#### *Liquidity Risk*

Liquidity risk is the risk of having insufficient financial resources to meet the Corporation's funding requirements.

The Corporation's liquidity policies and practices include the measurement and forecast of cash flows and maintenance of a pool of high quality liquid assets.

### 8. COMMITMENTS

The Corporation has entered into a lease agreement for office space which expires December 31, 2021 with a 5 year renewal option. The amount of the annual rent payable is \$36,810 plus HST.

### 9. INCOME TAXES

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

The undepreciated capital cost for income tax purposes of the Corporation's depreciable assets exceeds the net book value by \$142,145.

The Corporation has the following non-capital losses available, listed by year of expiry, which can be used to reduce future years' taxable income. The potential income tax benefits associated with these items have not been recognized in the financial statements.

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**CREDIT UNION DEPOSIT GUARANTEE CORPORATION**

**Notes to Financial Statements**

**Year Ended December 31, 2018**

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**9. INCOME TAXES (continued)**

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<b>2028</b>	\$	571,067
<b>2027</b>		255,907
<b>2028</b>		387,654
<b>2029</b>		434,292
<b>2030</b>		575,432
<b>2031</b>		654,705
<b>2032</b>		658,896
<b>2033</b>		631,274
<b>2034</b>		565,881
<b>2035</b>		607,889
<b>2036</b>		598,445
<b>2037</b>		589,009

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\$ 6,530,451

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**10. RELATED PARTY TRANSACTIONS**

The Corporation's compensation, including the employers' portion of benefits, to key management personnel in 2018, which are defined by IAS 24, Related Party Disclosures, as those persons having authority and responsibility for planning, directing and controlling the activities of the Corporation, including directors and management was \$312,376 (2017 - \$243,750).

