

CREDIT UNION

DEPOSIT GUARANTEE CORPORATION

Protecting Credit Union Member

Deposits for Over 30 Years



ANNUAL BUSINESS
REPORT
2019

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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 2019.

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 six meetings during 2019: five regular meetings and one meeting with the board of one credit union. Individual directors of the Corporation also attended eight annual general meetings of credit unions.

The Board of the Corporation acknowledges it is accountable for the actual results reported. This report provides an overview of the Corporation and results achieved for 2019.

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,



SCOTT JONES, CPA, CMA

Chair

OVERVIEW

In 2019, the Credit Union Deposit Guarantee Corporation had five (5) employees, four (4) located in Marystown and one (1) 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 subject to the Provincial Government's budget process. 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

The Credit Union Deposit Guarantee Corporation continued to perform well in 2019.

Financial:

The Corporation's reported net income was \$1,297,129 in 2019 as compared to \$1,392,993 in 2018. The decrease in 2019 net income is primarily a result of the following:

- Assessments decreased due to a decrease in the assessment rates
- Interest income increased due to a more favorable interest rate

The Deposit Guarantee Fund Balance at the end of 2019 was \$12,817,181 as compared to \$11,520,052 at the end of 2018. The Corporation reported assets of \$12,969,815 in 2019 compared to \$11,755,027 in 2018.

The audited financial statements of the Corporation are contained in Appendix "B" of this report.

Operational:

In accordance with its legislative mandate, the Corporation continued to monitor and examine credit unions in 2019.

The Corporation completed five (5) examinations of credit unions in 2019 covering nine (9) 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 \$10,386.

BUSINESS ISSUES

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

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.

BUSINESS ISSUES (cont.)

Results achieved:

Throughout 2017-2019, the Credit Union Deposit Guarantee Corporation undertook a review of the Credit Union Act (2009) by reviewing other provincial and federal legislation as well as seeking input from other informed parties including Regulators from across the country. The Corporation finalized its list of recommendations after considering follow up representations by the credit union system.

In the spring of 2019, the Corporation recommended legislative changes to the Minister.

OPPORTUNITIES AND CHALLENGES AHEAD

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.

APPENDIX A - DIRECTOR PROFILES



Scott Jones
Chair

Scott Jones is the Assistant Deputy Minister of Regulatory Affairs, Department of Digital Government and Service NL, Government of Newfoundland and Labrador. Mr. Jones assumed the position of Chair of the Credit Union Deposit Guarantee Corporation effective November 18, 2019. Mr. Jones most recent position was Director of Literacy and Institutional Services and Superintendent of Private Training Institutions with the Department of Advanced Education, Skills and Labour. Previously, he held other senior positions of a financial nature with the Province. He holds a Bachelor of Commerce (Co-op) degree from Memorial University of Newfoundland and is a Chartered Professional Accountant and a graduate of the Public Sector Leadership and Management Development Program from the Gardiner Institute.



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...)



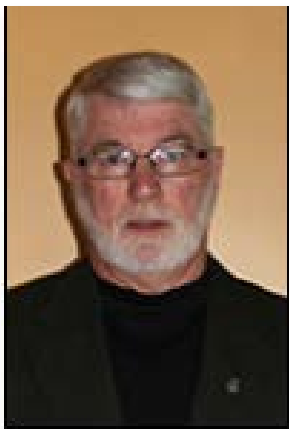
Maureen McCarthy

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 (Honors) 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

Financial Statements of

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

Year Ended December 31, 2019

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

Financial Statements

Year Ended December 31, 2019

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

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Year Ended December 31, 2019

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INDEPENDENT AUDITOR'S REPORT

To the Directors of Credit Union Deposit Guarantee 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, 2019, 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, 2019, 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.

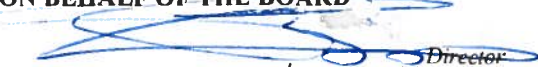
St. John's, NL
April 2, 2020



Brian T. Scammell Professional Corporation
Chartered Professional Accountant

CREDIT UNION DEPOSIT GUARANTEE CORPORATION**Statement of Financial Position****December 31, 2019**

	2019	2018
ASSETS		
Cash	\$ 40,445	\$ 18,193
Marketable securities (<i>Market value \$12,650,110, 2019 - \$11,650,110</i>) (Note 4)	12,650,110	11,650,110
Accounts receivable	-	41
Interest receivable	238,718	61,884
Harmonized sales tax recoverable	25,170	18,374
Prepaid expenses	5,217	448
Property, plant and equipment (<i>Net of accumulated amortization</i>) (Note 5)	10,155	5,977
	\$ 12,969,815	\$ 11,755,027
LIABILITIES AND FUND BALANCE		
Accounts payable and accrued liabilities	\$ 152,634	\$ 234,975
FUND BALANCE	12,817,181	11,520,052
LIABILITIES AND FUND BALANCE	\$ 12,969,815	\$ 11,755,027

ON BEHALF OF THE BOARD
Director

See notes to financial statements

CREDIT UNION DEPOSIT GUARANTEE CORPORATION**Statement of Comprehensive Income and Fund Balance****Year Ended December 31, 2019**

	2019	2018
FEES		
Assessments	\$ 1,691,868	\$ 1,848,504
Interest	321,443	239,385
Bonding insurance	306,199	299,478
Other	1,151	1,051
	2,320,661	2,388,418
EXPENSES		
Salaries and wages	549,143	543,276
Insurance	255,399	248,187
Meetings and conventions	41,850	33,808
Travel	40,105	20,630
Rental	36,470	36,810
Training	27,128	42,600
Office	19,533	14,528
Data access costs	13,542	15,124
Directors fees	11,025	12,240
Telephone	10,849	10,859
Professional fees	10,153	7,956
Advertising and promotion	5,728	7,346
Amortization	2,300	1,963
Loss on disposal of assets	307	98
	1,023,532	995,425
NET INCOME	1,297,129	1,392,993
RETAINED EARNINGS - BEGINNING OF YEAR	11,520,052	10,127,059
RETAINED EARNINGS - END OF YEAR	\$ 12,817,181	\$ 11,520,052

See notes to financial statements

CREDIT UNION DEPOSIT GUARANTEE CORPORATION**Statement of Cash Flows****Year Ended December 31, 2019**

	2019	2018
OPERATING ACTIVITIES		
Net income	\$ 1,297,129	\$ 1,392,993
Items not affecting cash:		
Amortization of property, plant and equipment	2,300	1,963
Loss on disposal of property, plant and equipment	307	-
Interest	(321,443)	(239,385)
	978,293	1,155,571
Changes in non-cash working capital:		
Accounts receivable	41	844
Interest received	144,609	226,443
Accounts payable and accrued liabilities	(82,341)	(61,685)
Prepaid expenses	(4,769)	1,189
Harmonized sales tax payable	(6,796)	3,397
	50,744	170,188
Cash flow from operating activities	1,029,037	1,325,759
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(6,785)	(322)
Proceeds from sale of marketable securities	12,000,000	10,300,000
Purchase of marketable securities	(13,000,000)	(11,650,000)
Cash flow used by investing activities	(1,006,785)	(1,350,322)
INCREASE (DECREASE) IN CASH FLOW	22,252	(24,563)
Cash - beginning of year	18,193	42,756
CASH - END OF YEAR	\$ 40,445	\$ 18,193
CASH FLOWS SUPPLEMENTARY INFORMATION		
Interest received	\$ 176,833	\$ 12,943

See notes to financial statements

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

Notes to Financial Statements

Year Ended December 31, 2019

1. NATURE OF OPERATIONS

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, 2019 were authorized for issue by the Corporation's Board of Directors on April 2, 2020.

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.

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CREDIT UNION DEPOSIT GUARANTEE CORPORATION

Notes to Financial Statements

Year Ended December 31, 2019

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

(d) Leases

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in note 3. The date of initial application of IFRS 16 for the Corporation is January 1, 2019.

The Corporation has assessed the impact of this standard and has concluded no adjustments to the financial statements are required as no material lease obligations are held by the Corporation.

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, 2019, and have not been applied in preparing these financial statements:

(e) Amendments to IAS 1 and IAS 8 – Definition of material

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency.

The amendments are applied prospectively for annual periods beginning on or after January 1, 2020, with earlier application permitted.

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

Notes to Financial Statements

Year Ended December 31, 2019

3. OTHER SIGNIFICANT ACCOUNTING POLICIES

Financial instruments

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 below. The Corporation has no debt instruments that are subsequently measured at FVTOCI.

<u>Financial Instrument</u>	<u>Classification</u>
Cash	Amortized cost
Marketable securities	Amortized cost
Receivables	Amortized cost
Accounts payable and accrued liabilities	Amortized cost

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.

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.

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CREDIT UNION DEPOSIT GUARANTEE CORPORATION

Notes to Financial Statements

Year Ended December 31, 2019

3. OTHER SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

(c) Financial assets at FVTPL

Financial assets at FVTPL are:

- assets with contractual cash flows that are not SPPI; or/and
- assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or

(continues)

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

Notes to Financial Statements

Year Ended December 31, 2019

3. OTHER SIGNIFICANT ACCOUNTING POLICIES *(continued)*

- assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognized in profit or loss. Fair value is determined in the manner described in Note.6.

(d) 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.

(e) 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.

(f) Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

(g) 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, 2019

3. OTHER SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash

Cash consists of balances with banks.

Property, plant and equipment

Property, plant and equipment is stated at cost or deemed cost less accumulated amortization and is amortized over its estimated useful life on a declining balance basis at the following rates and methods:

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

The Corporation regularly reviews its property, plant and equipment to eliminate obsolete items.

Property, plant and equipment acquired during the year but not placed into use are not amortized until they are placed into use.

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 \$ 42,304 (2018- \$42,932).

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.

(continues)

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

Notes to Financial Statements

Year Ended December 31, 2019

3. OTHER SIGNIFICANT ACCOUNTING POLICIES (continued)

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

	2019	2018
BMO term deposit, 2.62%, maturing April 13, 2020	\$ 12,000,000	\$ -
BMO term deposit, 2.60%, maturing April 9, 2020	650,000	-
BMO term deposit, 2.10%, matured April 12, 2019	-	650,000
Concentra Financial term deposit, 2.30%, matured April 12, 2019	-	11,000,000
Newfoundland and Labrador Credit Union share	100	100
Concentra share	10	10
	\$ 12,650,110	\$ 11,650,110

5. PROPERTY, PLANT AND EQUIPMENT

	2019			
	Computers	Signage	Furniture and Fixtures	Total
	\$	\$	\$	\$
Cost				
Balance, beginning of year	83,843	1,547	36,970	122,360
Additions	2,741	-	4,045	6,786
Disposals	502	-	1,950	2,452
Balance, end of year	86,081	1,547	39,065	126,694
Accumulated Depreciation				
Balance, beginning of year	80,951	1,182	34,250	116,383
Reductions on disposal	431	-	1,714	2,145
Amortization expense	1,279	73	949	2,300
Balance, end of year	81,799	1,255	33,484	116,538
Net book value	4,283	292	5,581	10,155

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CREDIT UNION DEPOSIT GUARANTEE CORPORATION**Notes to Financial Statements****Year Ended December 31, 2019****5. PROPERTY, PLANT AND EQUIPMENT (continued)**

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

6. 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.

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.

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CREDIT UNION DEPOSIT GUARANTEE CORPORATION

Notes to Financial Statements

Year Ended December 31, 2019

7. NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS *(continued)*

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 \$144,752.

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.

2027	\$	255,907
2028		387,654
2029		434,292
2030		575,432
2031		654,705
2032		658,896
2033		631,274
2034		565,881
2035		607,889
2036		598,445
2037		589,009
2038		571,067
2039		381,627
		<hr/>
		\$ 6,912,078

10. RELATED PARTY TRANSACTIONS

The Corporation's compensation, including the employers' portion of benefits, to key management personnel in 2019, 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 \$254,232 (2018 - \$312,376).