

Annual Report 2015



# DEPOSIT PROTECTION & REGULATORY EXCELLENCE



[www.cudgc.sk.ca](http://www.cudgc.sk.ca)

## MISSION

We instill public confidence in Saskatchewan credit unions by guaranteeing deposits. As the primary prudential and solvency regulator, we promote responsible governance by credit unions and advocate their strength and stability.

## VALUES

Values guide individual and organizational behaviour. The Corporation's values are reflected in its Code of Conduct which provides a common frame of reference for staff, management and the board in fulfilling the Corporation's mission and strategic focus.

**Co-operation:** As part of the co-operative financial services system, we respect co-operative principles and support credit unions in enhancing their strength and development by working together.

**Honesty and Integrity:** We perform our duties conscientiously with the highest level of honesty and professional integrity.

**Fairness:** We approach issues and decisions with common sense, sound judgement, fairness and consistency.

**Responsible Regulation:** We strike an appropriate regulatory balance that effectively protects depositors without unduly impairing credit unions' ability to compete in the market.

**Leadership:** We use our knowledge of the credit union system and the financial services industry to anticipate future trends and proactively respond to our environment. We demonstrate leadership provincially and nationally by advocating positive change that contributes to the strength and stability of the credit union system.

**Teamwork and Respect:** We work as a team to achieve goals and progress towards our common vision. We recognize that people are the key to success. We consistently treat people with dignity, respect, fairness and the highest standards of ethics. We demonstrate co-operation when working with others, encouraging questions that generate innovative ideas and creative solutions.

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## REPORT FROM THE CHAIR



I am pleased to present the 2015 annual report of Credit Union Deposit Guarantee Corporation of Saskatchewan. It was another successful year for the Corporation, as we made great strides on several significant and complex issues.

One of our most significant challenges has been responding to the shift in federal policy direction to clarify responsibility for regulating the Canadian credit union sector. This will require the development of a provincial legislative and regulatory framework for provincial credit union centrals and has implications for how credit unions participate in the national payments system. In addition, new policies on how credit unions may access Emergency Lending Assistance (ELA) from the Bank of Canada will require further analysis to determine whether this is a viable option for provincially regulated entities. Management has been working with a variety of stakeholders at the provincial and national level to respond to these

developments and ensure the regulatory framework for Saskatchewan credit unions remains appropriate.

Recent events have also shone a spotlight on risk in the industry, and enterprise risk management (ERM) has become an important tool. The Corporation continues to make progress on the evolution of its ERM framework. The process has become increasingly more sophisticated and in 2015 we took steps to begin measuring our performance against the risk tolerances the Corporation has set out.

The Corporation also completed development of long term succession plans for key management personnel in 2015. This helps the Corporation identify and develop employees who have potential to fill key roles within the organization on an ongoing basis. The results were no surprise. The Corporation is in a good position, with a strong pool of qualified and committed employees.

With all of these new developments, the Corporation cannot forget its core purpose of protecting depositors and the Deposit Guarantee Fund. I am pleased to say we maintain one of the strongest funds in North America. With credit union growth slowing, we were able to keep the assessment charged to credit unions at 2009 levels, while still maintaining the Fund well within its target range.

The Corporation has always held credit unions to high standards and worked proactively to prepare them for increased regulatory expectations. Credit unions respond well to this approach, which shows in their performance and willingness to adapt at every turn. The strength and stability of Saskatchewan credit unions makes the job of the Corporation that much easier. Once again, credit unions generated strong financial results in 2015 and are well-positioned for more challenging economic conditions and continued change. Year after year, credit unions in this province rise to the challenge, often outperforming their peers.

The Corporation's board was stable in 2015. Though change can be good, we welcome consistency around the board table when the Corporation, credit union system and industry are going through such significant change. I am pleased to be in the company of a group with such a broad range of skills, expertise and experience in these challenging times.

I commend the Corporation's staff and management again for the tremendous work they do. The Corporation employs a small group of talented, highly skilled people to carry out some very sophisticated work. I know my fellow directors would agree when I say that we appreciate how well the organization is run and how diligently everyone works.

As we move into 2016, credit unions and the Corporation face much uncertainty. Oil prices remain at all-time lows and the overall economy has softened. Despite that, I feel secure in our future. The Corporation has made wise investments in people, processes and systems to build the internal capacity it needs. Credit unions have followed suit and are evolving to meet the challenges of the future.

A handwritten signature in blue ink that reads "Daniel Ish". The signature is fluid and cursive, with a large initial "D".

Daniel Ish

## REPORT FROM THE CEO



As I reflect on the past year, I am proud of what the Corporation has accomplished in 2015. While change is nothing new in the credit union sector, the year brought a number of significant developments that required ongoing attention.

The Corporation worked on several initiatives to ensure our regulatory framework keeps pace with national and international standards, such as the introduction of changes to the processes and tools we use to supervise credit unions. In addition we drafted new standards for liquidity adequacy, released regulatory guidelines on residential mortgage underwriting and liquidity risk management, and planned for several other changes on the horizon.

The Corporation was also heavily involved in preparing for changes associated with the shift in federal policy direction contained in Bill C-43. Our goal is to ensure an appropriate framework for managing systemic risk when regulation of SaskCentral migrates from the federal government to the province in 2017. In addition to creating a need for new legislation and an appropriate regulatory framework, Bill C-43 will also impact the way credit unions participate in the national payments system and how liquidity is managed to support that activity. A further implication is the possibility for the system to access emergency lending assistance from the Bank of Canada. The Corporation has been working with SaskCentral and Financial and Consumer Affairs Authority to explore this potential enhancement to our provincial financial safety net.

The Corporation has put significant effort toward maintaining the internal processes and tools that support our work. In 2015 we refined our enterprise risk management framework, completed a comprehensive review of our human resource systems, concluded the first phase of our long-term succession plan and began work to update our public web site. All of this work pays off in the form of a highly engaged workforce. I am pleased to say that according to our latest survey, employee satisfaction is at an all-time high of 92%.

It was also another successful year for Saskatchewan credit unions. They performed well in 2015, even with historically low interest margins, intense competition and more challenging economic conditions. Net earnings were among the highest recorded and capital reached record levels. Growth moderated somewhat in response to the sluggish economy, but loan delinquencies remained well below the five-year average.

On the other side of the equation, credit unions continued to evolve their governance, strategy and risk management practices. They also performed well in the eyes of their members. They consistently outperform their competitors and have been rated number one in overall customer service excellence for more than a decade. Saskatchewan credit unions have proven themselves to be resilient competitors and the Corporation is committed to working with them to ensure their continued success.

A handwritten signature in black ink, appearing to read 'Garth Melle', written in a cursive style.

Garth Melle

# CORPORATE GOVERNANCE

## CORPORATE GOVERNANCE FRAMEWORK

Credit Union Deposit Guarantee Corporation was the first deposit guarantor in Canada. It has successfully guaranteed the full repayment of deposits held in Saskatchewan credit unions since 1953.

Strong governance practices are an important way the Corporation demonstrates the strength of its regulatory regime. The Corporation's governance framework identifies the four main roles in the governance process and outlines the relationship between board and management.

Role	Board Responsibilities	Management Responsibilities
<b>Leader</b> <b>Setting corporate direction</b>	Participates in setting strategic direction and provides strategic oversight  Functions independently from management  Approves corporate objectives and performance targets  Approves business plan and policy  Selects and retains qualified and competent management	Leads development of strategic options and implements strategy  Presents continuous improvement initiatives  Supports the board in implementing governance processes to guide the work of the board and its committees
<b>Steward</b> <b>Ensuring an effective control environment and allocation of resources</b>	Ensures adequate and effective risk management  Ensures the effective allocation, use and protection of all resources, taking the Corporation's risks into account	Develops and implements enterprise risk management strategies and processes
<b>Reporter</b> <b>Presenting a fair and objective picture of the organization to stakeholders</b>	Approves policies for communicating effectively with stakeholders	Develops appropriate information for communicating with the board and stakeholders
<b>Overseer</b> <b>Exercising effective control</b>	Sets the "tone at the top"  Monitors operating and financial performance  Ensures compliance with legislation and code of conduct  Ensures it receives appropriate information  Monitors the internal control and management systems  Obtains independent verification	Develops an appropriate control environment including the governance approach, organizational structure, management style, communication style, and policies and procedures

## BOARD OF DIRECTORS



Dean Walde

Daniel Ish

Lyn Kristoff

Keith Nixon

Susan Amrud

Clare Isman

Tim Ward

The Corporation's business and affairs are governed by its board of directors. The board sets strategic direction and ensures the Corporation's efforts reinforce the strength and stability of Saskatchewan credit unions.

The composition of the Corporation's board is set out in *The Credit Union Act, 1998*, section 453(1):

453(1) The business and affairs of CUDGC are to be managed by a board of directors consisting of:

- (a) one individual appointed by Credit Union Central;
- (b) two individuals, who are not employed by, on retainer from or officers or directors of any credit union, Credit Union Central or CUDGC, appointed by Credit Union Central following consultation with the deputy minister of the ministry presided over by the minister;
- (c) the chief executive officer of Credit Union Central or that person's nominee;
- (d) the deputy minister of the ministry presided over by the minister or the nominee of the deputy minister;
- (e) the Deputy Minister of Finance or the nominee of the Deputy Minister of Finance;
- (f) one individual, who is not employed in the public service of the Government of Saskatchewan or by a Crown corporation, appointed by the Lieutenant Governor in Council following consultation with:
  - (i) the chief executive officer of Credit Union Central; and
  - (ii) the chairperson of the board of directors of Credit Union Central.

On December 31, 2015 the Corporation's board was composed of the following individuals:

**Dean Walde**  
**SaskCentral Board Appointee**

Dean has 25 years of oversight experience in credit unions and related organizations. This has included being a member of the boards of SaskCentral, Synergy Credit Union, Concentra and Credit Union Deposit Guarantee Corporation therefore giving him extensive experience and knowledge of the credit union system. Dean is a graduate of the Credit Union Director Achievement Program and is an Accredited Canadian Credit Union Director. Dean has run a mixed farming operation including purebred cattle and grain farming. He was appointed to the Corporation's board in 2013.

**Daniel Ish, QC (Chair)**  
**SaskCentral Independent Appointee**

Daniel has served as professor of law at University of Saskatchewan (U of S) and McGill University, and was dean of law at the U of S for nine years. He was appointed to Queen's Counsel in 1991 and as an Officer of the Order of Canada in 2014. His extensive international work includes advising on legal reform projects in several developing countries mostly for the Canadian Co-operative Association. He is a public member (adjudicator) for the Investment Dealers Association and the Mutual Fund Dealers Association, and chairs the Prairie Region Panel of the Canadian Broadcast Standards Council. Daniel is a Treaty Land Entitlement arbitrator for Saskatchewan and is a former Chief Adjudicator of the Indian Residential Schools Adjudication Secretariat (Canada). He currently practices as a labour arbitrator and mediator. He was appointed to the Corporation's board in 2010.

**Lyn Kristoff, FCPA, FCA (Vice Chair)  
SaskCentral Independent Appointee**

Before her retirement, Lyn was Vice President, Finance at Saskatchewan Wheat Pool. Prior to joining the Wheat Pool, she worked with a variety of companies including SaskEnergy and Saskatchewan Power. Lyn is a Fellow of the Institute of Chartered Professional Accountants of Saskatchewan (FCPA, FCA) and holds a Bachelor of Administration degree from the University of Regina. She was appointed to the Corporation's board in 2008.

**Keith Nixon  
SaskCentral CEO**

Keith has been CEO of SaskCentral since September 2012. He began his credit union career in 1981 working in member service, lending and branch management until joining SaskCentral in 1987 in data processing and technology. From 1989 to 1997 Keith worked for the Corporation in financial monitoring and loss prevention returning to SaskCentral in government relations, and later Executive Vice-President, Corporate and Community Affairs, and Corporate Secretary. Keith holds a Certificate in Administration from the University of Regina and a Fellows designation from the Credit Union Institute of Canada. He has served on the Corporation's board since 2012.

**Susan Amrud, QC  
Saskatchewan Justice Nominee**

Susan Amrud is the Associate Deputy Minister of the Saskatchewan Ministry of Justice. She has spent the last 33 years practicing law in the Ministry of Justice, with a focus on legislative development. Susan is a member of the boards of the Financial and Consumer Affairs Authority, the Law Reform Commission and Pro Bono Law Saskatchewan. She joined the Corporation's board in 2014.

**Clare Isman, FCPA, FCMA, C.Dir.  
Saskatchewan Finance**

Clare is Saskatchewan's Deputy Minister of Finance. She served as Deputy Minister of Advanced Education, Employment and Immigration from 2009-2012. Clare joined the Saskatchewan Public Service Commission in 1998 and was appointed Chair from 2004-2009. Before joining the Government of Saskatchewan, she held various positions in Finance and Human Resources with the City of Regina. She holds a Bachelor of Commerce degree from the University of Saskatchewan, and is a Fellow of the Institute of Chartered Professional Accountants of Saskatchewan (FCPA, FCMA) and a Chartered Director (C.Dir.). She became a member of the Corporation's board in 2014.

**Tim Ward  
Saskatchewan Government Independent  
Appointee**

Tim retired from Affinity Credit Union in July 2009 after almost 15 years as a Commercial Account Manager. His 36-year career in the financial services industry also included positions with Trans Canada Credit, The Bank of Nova Scotia, The Bank of Montreal and SEDCO. Tim is a Commission Member of the Saskatchewan Real Estate Commission and a board member of a private company. He was appointed to the Corporation's board in 2011.

### Audit committee

An audit committee oversees the integrity of the Corporation's financial reporting and controls. Using input provided by management, the committee reports regularly to the board about the Corporation's:

- financial reporting
- internal control systems
- relationship with auditors
- adherence to policy and regulatory requirements
- risk management and business continuity plans
- legal and ethical conduct

The committee ensures the independence of external and internal auditors. It also ensures the Corporation uses appropriate due diligence in its controls, accountability and financial reporting.

As of December 31, 2015 the following directors were members of the audit committee:

- Lyn Kristoff (Chair)
- Keith Nixon
- Tim Ward

### Board and committee meeting attendance

The Corporation's board held five meetings in 2015. This included a strategic planning session. The audit committee met three times. The charts below outline director attendance at meetings.

#### Board

Name	Meetings attended
Ish	5/5
Kristoff	5/5
Walde	4/4
Nixon	4/5
Amrud	5/5
Isman	3/5
Ward	5/5

#### Audit Committee

Name	Meetings attended
Kristoff	3/3
Nixon	3/3
Ward	3/3

### Board and committee remuneration

Director remuneration is intended to recognize effort and dedication, and to reasonably compensate directors for their time. We believe the Corporation's board remuneration policy is fair and consistent with related organizations.

Directors claim honorarium and per diem allowances at their discretion. The two government directors and SaskCentral's CEO have elected not to receive remuneration from the Corporation.

In 2015 the Corporation paid director compensation in the amount of \$69,612. This includes honorariums, per diems and other benefits as specified below.

<b>Name</b>	<b>Honorarium</b>	<b>Per Diem</b>	<b>Benefits</b>
Ish	16,000	7,000	1,234
Kristoff	7,500	4,925	868
Walde	7,321	6,120	574
Nixon	0	0	0
Amrud	0	0	0
Isman	0	0	0
Ward	7,500	9,500	1,070
<b>Totals</b>	<b>38,321</b>	<b>27,545</b>	<b>3,746</b>

## EXECUTIVE MANAGEMENT

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Garth Melle

C.A. Hatlelid

Brent  
Schellenberg

Linda Jacob

The executive management team provides strategic vision, leadership and direction to the Corporation. The Corporation is led by:

**Garth Melle, Chief Executive Officer**

Garth has 39 years of credit union system experience, including credit union management and leadership roles in business development, product and service development, information technology and strategic initiatives. Garth was with the Corporation from 1992 to 1994 in loss prevention, returning in 1999 as Director of Operations. Garth has led the Corporation as Chief Executive Officer since 2000.

**C.A. Hatlelid, Vice-President  
Regulatory Policy and Prevention**

C.A. has 22 years of financial industry experience, including risk management, investment management, treasury, policy development and compliance. C.A. joined the Corporation in 2003, and has led the Regulatory Policy and Prevention team since 2009.

**Brent Schellenberg, Vice-President  
Risk-Based Supervision**

Brent has 32 years of credit union system experience. He has worked in corporate finance, investment management, risk management, policy development, loan portfolio management, sales leadership and information technology. Brent joined the Corporation in 2006, and has led the Risk-Based Supervision team since 2009.

**Linda Jacob, Vice-President  
Corporate Operations**

Linda has 39 years of credit union system experience. This included leadership positions in SaskCentral and Celero in areas including information technology, project management, quality assurance, change management and training. Linda joined the Corporation in 2008 and has led the Corporate Operations team since 2009.

## CODE OF CONDUCT

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All directors, executives, employees and contractors must adhere to a Code of Conduct. The code outlines responsibilities and guides the conduct of professional duties as follows:

- compliance with laws, regulations and proprietary rights
- integrity of corporate records and communication
- privacy and confidentiality of corporate information
- fair dealing with employees, suppliers and service suppliers
- corporate political, social and environmental responsibility
- freedom from workplace harassment, violence and solicitation
- protection and proper use of corporate assets
- reporting of dishonest or suspected dishonest activities
- conflicts of interest

Each year, board and employees of the Corporation acknowledge their understanding of, and compliance with, the Code of Conduct. The Corporation reports annually to the board on compliance with the code.

## MANDATE

Credit Union Deposit Guarantee Corporation serves as the primary regulator and deposit guarantor for Saskatchewan credit unions. The Corporation instills confidence in the province's credit unions by guaranteeing deposits and promoting responsible governance, financial strength and stability. The Corporation guarantees full repayment of deposits held in Saskatchewan credit unions. To do so it manages and maintains a guarantee fund consistent with industry standards. The Corporation's other primary responsibility is establishing and ensuring compliance with the Standards of Sound Business Practice (the Standards).

The most effective way to protect credit union depositors is to promote strength and stability in credit unions. While the Corporation has authority to direct credit unions to take immediate action on any issue that may put depositors' funds at risk, we respect each credit union's right to govern its own affairs and focus on regulating them rather than managing them.

The Corporation takes a co-operative and respectful approach to working with credit union boards, managers and employees. It depends on credit union skills, experience and risk management processes to provide an effective first level of deposit protection. This focus on prevention combined with the Corporation's constructive relationship with credit unions contributes to the fact that no depositor has ever lost funds on deposit in a Saskatchewan credit union.

### THREE LEVELS OF DEPOSIT PROTECTION

The Corporation's success is the result of three levels of protection for deposits:

1. Credit unions are required to operate prudently by following the Standards of Sound Business Practice and regulatory guidance established by Deposit Guarantee Corporation. The Corporation monitors credit unions to ensure they operate according to the Standards. It has legislated authority to direct credit unions to take action on any issue that poses potential risk to depositors' funds.
2. Credit unions are required to hold sufficient capital to support operations, including business risks. The capital reserves of Saskatchewan credit unions are among the strongest in Canada.

3. The Corporation's Deposit Guarantee Fund is one of the strongest deposit guarantee funds in Canada. It is funded through investment earnings and an annual assessment paid by credit unions.

### STANDARDS OF SOUND BUSINESS PRACTICE

The Corporation is empowered by *The Credit Union Act, 1998* to establish standards of sound business practice for Saskatchewan credit unions. The Standards are approved by the Corporation's board of directors and filed with Saskatchewan's Financial and Consumer Affairs Authority. The Standards set minimum requirements for effectively managing credit union operations, including controlling business risks.

The Corporation develops directives and guidance for credit unions to support implementation of the Standards. The intensity of supervision depends on the nature, scope, complexity and risk profile of each credit union.

The objectives of the Standards are to:

- establish principles and minimum requirements for corporate governance and the control environment that contribute to the sound and prudent operations of credit unions and the protection of deposits
- prescribe limits and restrictions for credit unions in the context of sound business practices to manage and control exposure to risk

The Standards emphasize the careful and practical judgement that would be exercised by a reasonable person in the financial services industry, having regard to:

- the objectives of the credit union
- all risks to which the credit union is exposed
- the amount and nature of the credit union's capital
- the regulatory compliance obligations of the credit union

In addition to establishing and communicating the Standards, the Corporation:

- monitors credit union performance relative to the Standards
- follows up with credit unions whose performance falls below the Standards
- intervenes directly with a credit union if necessary

## LEGISLATIVE AND GOVERNANCE MODEL

Saskatchewan credit unions are regulated by *The Credit Union Act, 1998* (the Act) and *The Credit Union Regulations, 1999* (the Regulations). Credit unions must comply with Credit Union Deposit Guarantee Corporation's Standards of Sound Business Practice and regulatory guidance documents, as well as credit union articles, bylaws and policies. Other provincial and federal legislation creates legal requirements and obligations that credit unions must comply with.

### REGULATORY ROLES

The regulation of Saskatchewan credit unions is a shared responsibility.

**Saskatchewan Legislative Assembly** – The Saskatchewan Legislative Assembly establishes public policy and enacts legislation for the Saskatchewan credit union system.

**Financial and Consumer Affairs Authority (FCAA)** – FCAA oversees the Corporation to ensure it is fulfilling its regulatory role. It has ultimate responsibility and authority for the regulation of Saskatchewan credit unions. FCAA is also responsible for approving and accepting credit unions' registrations and statutory filings. In regulating credit unions, FCAA's primary focus is consumer protection and the public interest. It may delegate powers and authority to the Corporation.

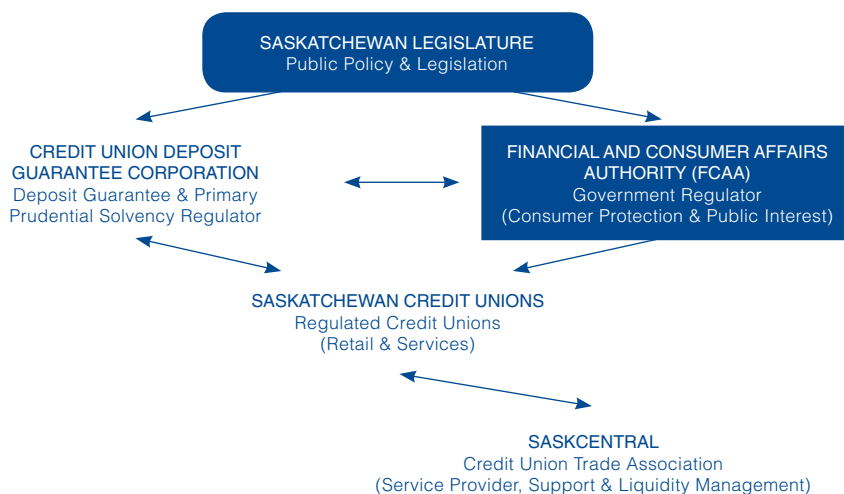
**Credit Union Deposit Guarantee Corporation** – The Corporation is the primary prudential and solvency regulator of Saskatchewan credit unions. It leads the development, monitoring

and enforcement of regulatory requirements for Saskatchewan credit unions. The Corporation's primary focus is on deposit protection and credit union solvency. It also manages the Deposit Guarantee Fund. The Corporation is accountable to FCAA and provides SaskCentral with appropriate information on risk within the credit union system to support sound liquidity management. FCAA also may issue and enforce directives to the Corporation.

**Saskatchewan credit unions** – Saskatchewan credit unions are member-owned financial co-operatives, democratically controlled by their members and operated for the purpose of providing financial services to their members. Financial products and services may be provided to non-members if authorized by the credit union's articles.

**Credit Union Central of Saskatchewan (SaskCentral)** – SaskCentral is the statutory liquidity manager for the Saskatchewan credit union system. In this role, it ensures credit unions hold liquidity at SaskCentral to enable them to participate in the national payments system, including clearing and settlement programs. It also manages the system's participation in regional and national liquidity programs.

As the trade association for credit unions, SaskCentral facilitates the establishment of credit union policy, develops programs, and offers services that assist credit unions in meeting their regulatory requirements. It also provides programs to assist in managing credit unions' image..



## REGULATORY DEVELOPMENTS

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The federal government is pursuing a series of measures that will have a significant effect on the Canadian credit union system. This includes amendments to several statutes to clarify provincial responsibility for risk arising from the operation of credit unions. These developments have been a key topic of discussion for the Corporation, its peers and stakeholders across the country in 2015.

Coupled with ongoing changes in the credit union system, this change in federal policy raises a number of strategic and policy questions at the provincial level. One of these issues is the transfer of responsibility for regulating credit union centrals from the federal government to provincial governments. In the absence of a legal framework for regulating SaskCentral, FCAA is exploring legislative and regulatory changes required to accommodate this transition by January 1, 2017.

Provincial centrals have historically served as liquidity managers and the hub for credit union access to the Canadian payments system. The change in federal policy requires an alternative that allows continued credit union participation in the payments system and a new framework for oversight of their statutory liquidity deposits. The Corporation is working with the provincial centrals, the Credit Union Prudential Supervisors Association (CUPSA) and others to come up with appropriate alternatives before Bill C-43 comes into effect.

A further consideration is the potential to obtain an Emergency Lending Agreement from the Bank of Canada. The Corporation is involved in discussions to determine the implications of such an arrangement and how it might enhance the safety net for Saskatchewan credit unions.

## PROFILE OF THE SASKATCHEWAN CREDIT UNION SYSTEM

As independent financial service co-operatives, Saskatchewan credit unions are owned and controlled by the members they serve. An elected board of directors governs each credit union, sets strategic direction and oversees the work of a management team accountable for day-to-day operations.

Credit unions are established under provincial legislation and regulated by Credit Union Deposit Guarantee Corporation of Saskatchewan. They must comply with the Corporation's Standards of Sound Business Practice, the bylaws and policies established by each credit union, as well as:

- *The Credit Union Act, 1998*
- *The Credit Union Regulations, 1999*
- *The Credit Union Insurance Business Regulations*
- other applicable provincial and federal laws

Canadian credit unions now have the option to be incorporated and regulated federally. To date none have chosen this option, which would allow them to conduct business across the country.

Formed during the 1930s in response to social and economic issues of the time, Saskatchewan credit unions have undergone significant and continual change. Over the years they have evolved to become full-service financial institutions with a solid reputation. For 11 years running, Canadian credit unions have ranked first among all financial institutions for overall customer service excellence.

While Saskatchewan credit unions have outgrown their modest beginnings, they maintain a deep commitment to co-operative principles and to those they serve. Credit unions continue to share their success with the members and communities that support them. Each year they commit millions of dollars and countless volunteer hours to causes, organizations and events. Through member equity programs, they reward members for their loyalty. In 2015 credit unions returned \$7.4 million in patronage allocations and dividends to members.

Despite the pressures of increased complexity and competitiveness in the financial services industry, Saskatchewan credit unions remain among the soundest organizations of their kind in Canada. By controlling operating expenses and carefully managing their balance sheets, they have maintained the financial strength required to support efficient, competitive and profitable operations.

Credit unions of all sizes face challenges as public and regulatory expectations continue to evolve. Larger credit unions are taking steps to enhance operating efficiency, such as making adjustments to their service delivery structures, while smaller credit unions are exploring opportunities to achieve economies of scale through collaboration and the sharing of back office functions.

The long-standing trend of consolidation continues. Through mergers, the number of credit unions in the province fell to 49 by December 31, 2015. They range in asset size from \$18 million to nearly \$5.5 billion.

# SYSTEM PERFORMANCE

## RISK PROFILE OF SASKATCHEWAN CREDIT UNIONS

The Corporation uses an industry-leading approach to reviewing and assessing the financial condition, safety and soundness of Saskatchewan credit unions. This approach evaluates credit union exposure to risks, and examines how effectively they manage and mitigate those risks.

All Saskatchewan credit unions are subject to the Corporation's regulatory oversight. This includes regular monitoring as well as scheduled supervisory reviews. The monitoring process includes:

- quarterly financial monitoring
- quarterly reviews of board reports
- annual financial statements
- annual external audit reports

The resulting composite risk rating represents an overall assessment of safety and soundness for each credit union. The Corporation's model includes four levels of composite risk: low, moderate, above average and high.

In 2015 the Corporation conducted on-site reviews of 13 credit unions representing 53% of system assets. A new supervisory framework was implemented in 2015. As anticipated, the implementation of the new framework shifted the aggregate composite risk rating for Saskatchewan credit unions from low to moderate. This shift was primarily due to a change in the measurement methodology for risk offset. Inherent risks and the quality of credit union's risk management practices were

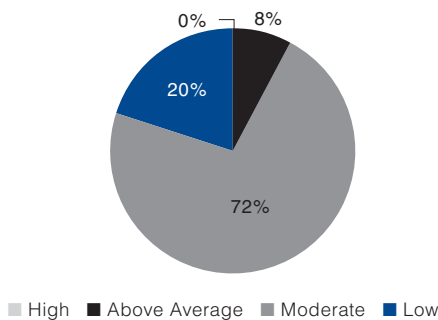
generally stable. Through 2015 credit union capital continued to grow as a result of stable earnings and controlled balance sheet growth.

On average credit unions use appropriate risk management practices and maintain capital and earnings levels that make them resilient to normal adverse business and economic conditions. Risk to the Deposit Guarantee Fund has remained stable, between low and moderate over the last five years.

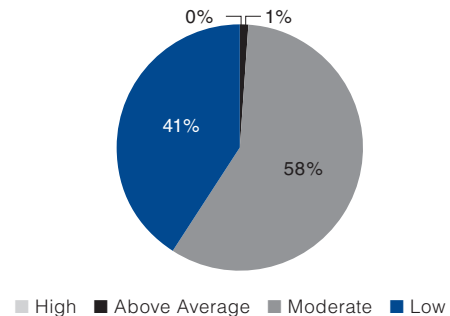
A moderate rating reflects the credit union system's resilience to normal adverse business and economic conditions, supported by positive trending levels of capital and stable earnings. Saskatchewan credit unions continue to demonstrate strength and stability. The Corporation encourages continued evolution of governance and risk management, including:

- developing an organizational structure that gives oversight functions (audit, compliance, risk management and financial analysis) appropriate independence, status and resources to fulfill their oversight responsibilities
- continuing to evolve risk monitoring, management and reporting
- embedding risk management in strategic planning and daily decision making
- ensuring the board has, for all material risk areas, established prudent risk tolerances that align with its willingness and ability to bear risk, along with capital limits and targets that adequately offset the credit union's risk profile
- providing effective governance of information technology to ensure the security of member and credit union information

Composite Risk by % of Credit Unions



Composite Risk by % of System Assets

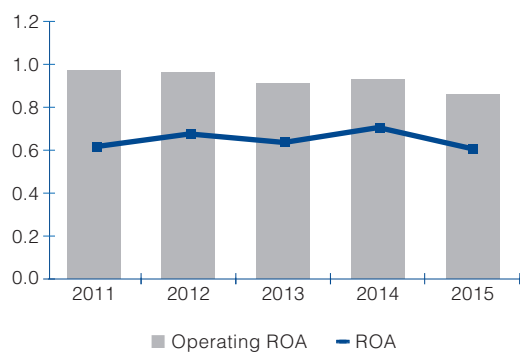


## FINANCIAL PERFORMANCE

Saskatchewan credit unions continued to demonstrate sound performance with another strong year of profitability, primarily as a result of ongoing cost containment efforts. As a result, capital ratios increased to new record levels. Consistent with current economic conditions, loan growth softened in 2015 which supported a modest increase in liquidity. A consolidated composite risk rating in the range of moderate, together with strong liquidity and capital, demonstrated that Saskatchewan credit unions continue to be stable and resilient financial institutions.

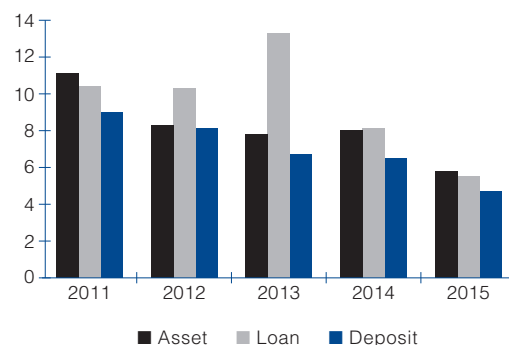
**Profitability** – Net income was \$124 million in 2015, among the highest years of earnings on record for Saskatchewan credit unions, generating a strong return on assets (0.61%). This result was primarily due to continued cost management. Operating expenses have steadily declined since 2008 from 3.56% of average assets to 2.50% in 2015.

### Operating Return on Average Assets and Return on Average Assets (%)



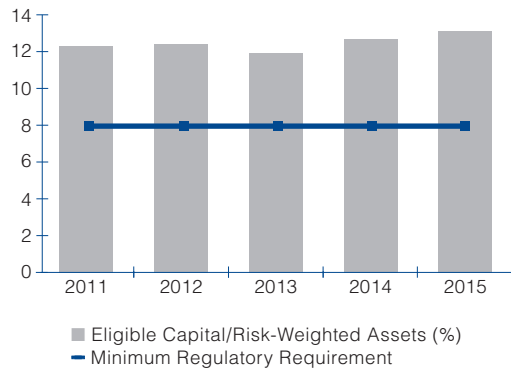
**Growth** – Assets increased by 5.8% in 2015 (2014 – 8.0%) to \$20.8 billion. The majority of this growth came from loans which increased by 5.5% (2014 – 8.1%) to \$16.6 billion. Loans were primarily funded with new deposits which grew by 4.7% (2014 – 6.5%) to \$17.8 billion fully guaranteed by the Corporation.

### Growth (%)

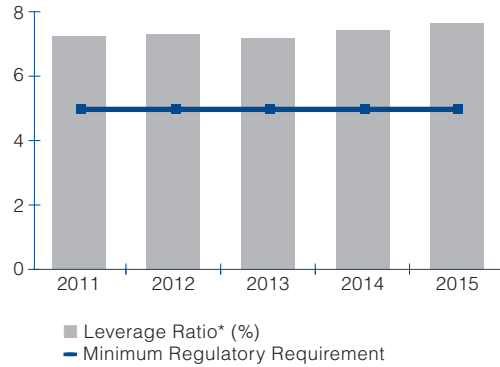


**Capital** – As a result of strong earnings and moderate growth, credit unions increased total eligible capital as a percentage of risk-weighted assets to 13.14% (2014 – 12.69%). This is well above the minimum regulatory standard of 8%, and positions credit unions favourably to meet the additional regulatory capital conservation buffer of 2.5% when it comes into effect in 2016. The leverage ratio was 7.66% (2014 – 7.43%) compared to the minimum regulatory standard of 5%.

**Capital Adequacy – Risk-Weighted Capital**



**Capital Adequacy – Leverage Ratio**



\*Leverage is based on eligible capital relative to total assets and certain off-balance sheet items.

**Other financial indicators** – Credit unions continue to prepare for new regulatory standards, including the Basel III Liquidity Coverage Ratio which is targeted to be in effect in 2017. With slower loan growth in 2015, total cash and investments increased compared to 2014. Loan delinquencies continue to be well below average, within historically low levels.

# MANAGEMENT DISCUSSION AND ANALYSIS

## STRATEGIC FOCUS AREAS

The Corporation's main focus is promoting the strength and stability of the credit union system while protecting deposits. In its annual planning process, the Corporation's board and executive management consider the environment, the corporate risk report and performance measurements to establish key areas of strategic focus. In 2015 the board confirmed the following as the Corporation's strategic focus areas:

- Deposit protection and regulatory excellence
- Prevention
- Corporate excellence

While work in these areas consumes the majority of the Corporation's resources, each year focused attention and dedicated resources are also given to several specific key initiatives critical to our continued success. The Corporation's strategic and operating plans for 2015 were built on prior years' progress and focused on areas requiring attention within the corporate, regulatory and business environments.

## Deposit protection and regulatory excellence

The Corporation employs industry leading practices to fulfill its mandate. Our approach balances the need for effective regulation with the realities of the competitive marketplace and the credit union environment.

As the principal credit union regulator in Saskatchewan, the Corporation holds credit unions to standards comparable with those placed on federally regulated financial institutions. The Canadian model is widely acknowledged as sound and effective, and we continually monitor and respond to changes at the national level. These efforts position credit unions to remain strong and stable in a competitive financial services environment.

The Corporation actively advocates for an effective regulatory framework for Saskatchewan credit unions. This includes providing leadership beyond provincial boundaries as a way of bringing about positive change and managing jurisdictional issues. Strong working relationships with regulators across the country help to manage jurisdictional issues and bring about efficiencies that minimize the cost and regulatory burden for credit unions.

## Performance and measures

Goal: A comprehensive deposit protection regime supported by responsible, balanced regulation

Objectives	Targets and Thresholds	2015 Performance
Instill confidence in the safety and security of Saskatchewan credit unions	90% of depositors believe deposits are safe or very safe – with a threshold of 80%	96%
Manage risk to the Guarantee Fund	90% of credit unions surveyed believe regulatory processes are fair – with a threshold of 80%	99%
Provide fair and consistent regulation		

## Key Initiatives

**Standards of Sound Business Practice** – The Standards form the basis for effective regulation of Saskatchewan credit unions. In 2015 the Corporation drafted new requirements for liquidity adequacy based on industry principles and the Basel III framework. The drafts were well-received by all stakeholders, including FCAA and credit unions. Additional regulatory guidance clarified expectations for liquidity risk management and prepared credit unions to adopt a 2.5% capital conservation buffer on January 1, 2016.

The Corporation also issued regulatory guidelines on residential mortgage underwriting aligned with industry principles and practices.

**Implementation of Revised Risk-Based Supervisory Framework** – Following a comprehensive review, the Corporation implemented a new framework along with the tools and processes used to assess credit union risk, risk management practices and corporate governance. In 2015 work was completed to update the technical tools that support the

framework, including an automated risk matrix and aggregation reporting that is used to report system composite risk.

**Review of supervisory processes** – Planning and research that began in 2015 will guide integration of the Corporation's process to monitor credit unions' compliance with the Standards of Sound Business Practice and other regulatory requirements. This work will ensure the Corporation's processes align with the new supervisory framework and validate the risk-based methodology used.

**Responding to federal legislative and regulatory developments** – With its peers across the country, the Corporation has been actively involved in the response to a shift in federal policy direction that has implications for the credit union sector. This includes migration of the regulation of credit union centrals to provincial jurisdiction, alternatives for continued credit union participation in the Canadian payments system, and the potential for an Emergency Lending Agreement between the Bank of Canada and the province.

## Goal: Corporate financial strength

Objectives	Targets and Thresholds	2015 Performance
Meet deposit protection financial obligations	1.4% to 1.6% of total credit union deposits in the Guarantee Fund – with a target of 1.5%	1.59%
Demonstrate fiscal responsibility	Financial results meet 2015 budget	\$5.4 million (actual) vs. \$5.6 million (budget)

## Key Initiative

**Fiscal responsibility** – In 2015 we continued to demonstrate fiscal responsibility by working to maintain costs and realize operating efficiencies where possible. By using system resources and sharing costs with partners, the Corporation achieved economies of scale and operating efficiencies.

## Looking forward

In 2016 the Corporation expects to finalize the Liquidity Standards that are targeted to take effect on January 1, 2017. The Corporation will continue to research and respond to national and international regulatory developments. This includes updating capital requirements

to take effect in 2018 to align with International Financial Reporting Standards and the Basel III leverage test, and to also consider additional prudential requirements for Saskatchewan's largest credit unions.

The Corporation will also address the implications of federal policy that will see the regulation of provincial centrals migrate from the federal government to the provinces. The Corporation will be involved in the development of a framework for the regulation and supervision of SaskCentral and systemically important credit unions in the Saskatchewan context. Also included is the development of a crisis management and emergency lending agreement framework supported by liquidity stress modelling, and a recovery and resolution framework.

**Prevention**

Prevention is the Corporation's key risk management strategy. Preventive programs and services support sound, prudent credit union operations. Credit unions are encouraged to be proactive, minimizing the need for the Corporation to react through intervention or assistance from the Guarantee Fund. Strong,

stable credit unions help the system operate effectively and give depositors confidence.

The Corporation regularly shares its outlook on credit union performance individually, in aggregate, and in relation to the industry. Credit union leaders use this information to make informed decisions.

**Performance and measures**

Goal: Credit union strength and stability

Objectives	Targets and Thresholds	2015 Performance
Invest in programs that reduce risk to the Guarantee Fund	90% of credit unions surveyed believe regulatory processes are fair – with a threshold of 80%	99%
Promote sound governance and strategic management in credit unions	90% of credit unions surveyed believe the Corporation is responsive to its stakeholders – with a threshold of 80%	100%
Foster positive working relationships	>90% of credit union assets with composite risk of low to moderate – with a threshold of 90%	99%
	Consolidated credit union risk-weighted capital >10.5% – with a threshold of 10.5%	13.1%

**Key Initiative**

**Preventive strategy** – The Corporation regularly interacts with credit unions to support strong governance and business practices. In 2015 the Corporation engaged with credit unions to support their understanding of the Corporation's regulatory requirements, expectations and direction. Specific emphasis was placed on consultation with credit unions about the Standards of Sound Business Practice and new liquidity requirements.

**Looking forward**

In 2016 the Corporation will continue its practice of engaging with stakeholders to discuss regulatory developments and system structural changes. We will sponsor and develop targeted programming, as required, based on information provided by the composite risk profile of credit unions.

**Corporate excellence**

The Corporation's pursuit of excellence is supported by effective strategic and operational planning processes. Day-to-day activities are guided by clear objectives and strategies.

The Corporation's governance framework includes policies that guide decisions and articulate the authority and accountability of board, management and staff. An enterprise risk management framework promotes sound decision making by identifying and assessing risks to the Corporation and credit union system.

The Corporation relies on a skilled, professional team that understands the environment and the industry, demonstrates leadership with stakeholders, and manages change in complex situations. A constructive work environment recognizes individual contributions to organizational goals, promoting teamwork and collaboration. This culture encourages leadership at all levels and supports continuous development. Ongoing investments in professional development ensure employees continue to evolve and grow.

**Performance and measures**

Goal: Sound governance and business practices

Objectives	Targets and Thresholds	2015 Performance
Demonstrate best practices in corporate governance and strategic management	Board governance self-assessment rating at 85% – with a threshold of 80%	92%
Fulfill responsibilities professionally and with the utmost integrity	Audit committee self-assessment rating at 85% – with a threshold of 80%	95%
Foster a constructive work environment	Organizational Effectiveness Inventory rate at 80% or above – with a threshold of 75%	92%
	Organizational Culture Inventory average rating of constructive styles >50th percentile– with a threshold at the 50th percentile*	82nd percentile

\* biennial assessment – last conducted in 2014

## Key Initiative

**People** – The Corporation completed a comprehensive review of its human resource systems in 2015. We believe that the results showed the Corporation's systems to be competitive with the market. Staff succession planning and leadership development have ensured that the Corporation employs a strong pool of people qualified to take on executive positions if required.

In 2015 the Corporation's annual Organizational Effectiveness Inventory assessment measured employee satisfaction levels at 92%. This satisfaction level was the highest seen to date and an increase from 89%, registered in 2014. The 100% participation in the survey is a good indication of employee engagement.

**Corporate governance** – The Corporation continued to enhance its enterprise risk management framework by commencing the development of implementation plans for its risk tolerance measures.

**Technology systems** – In 2015 the Corporation implemented new technology tools to support ongoing business needs. This work included:

- a new online tool used to manage relationships with credit unions
- an enhanced risk matrix monitoring tool to support changes to the supervisory framework
- enhancements to the Corporation's budget model and fiscal reporting

As part of upgrades to the public web site, the Corporation began development of an online search tool that will allow the public to search for unclaimed balances.

## Looking forward

In 2016 the Corporation will continue efforts to maintain employee satisfaction. An Organizational Culture Inventory and Organizational Effectiveness Inventory will be used to assess the Corporation's operating culture and staff satisfaction. The Corporation will expand succession planning and leadership assessment to include all staff.

On the technology front, the Corporation will launch a refreshed public website that will include an online search tool for unclaimed balances. It will also begin work to update technology and reporting systems to support new liquidity standards coming in 2017.

The Corporation will also continue to evolve its enterprise risk management processes with enhanced reporting that incorporates risk appetite statements and tolerances. Other governance practices may be enhanced depending on the results of board and audit committee self-assessments.

## OPERATIONAL ACTIVITIES

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The Corporation's key operational focus is protecting member deposits and ensuring the strength and stability of the credit union system. To accomplish this, the Corporation is structured in three divisions: Regulatory Policy and Prevention, Risk-Based Supervision, and Corporate Operations.

### Regulatory Policy and Prevention

This division ensures an effective and responsible framework for the regulation of Saskatchewan credit unions. In addition to overseeing the Deposit Guarantee Fund (the Fund), it develops regulatory policy and executes the Corporation's preventive strategy.

One of this division's key focuses is maintaining relevant standards of sound business practice and developing supplemental regulatory guidance and directives for credit unions. Success in this area is linked to its history of adopting industry-leading regulatory approaches and its proactive, consultative approach. The Corporation regularly interacts with credit unions on a variety of issues to provide leaders with a better understanding of the Corporation's regulatory expectations. This is complemented by sponsoring or developing preventive programming, such as director workshops or training in fraud prevention and deposit services.

A function of this division is managing the Fund. This includes leadership, oversight, strategy and policies related to the Fund, its size, and the annual assessment credit unions pay to maintain the Fund. This division is responsible for allocating assets, appointing a portfolio manager, and monitoring fund performance. As per the policies and practices approved by the board, investments are purchased according to the priorities of:

- safety of principal
- sufficient liquidity to meet the Corporation's cash flow obligations
- reasonable return

The asset liability committee meets regularly to review investment strategy, the investment performance and compliance with policy. Results are reported to the board quarterly. The Corporation is required to review the Fund's investment policy and practices at least once per year. Any changes must be approved by the board.

### Risk-Based Supervision

This division, composed of about 40% of the Corporation's staff, is responsible for credit union monitoring, intervention and regulatory approvals. Credit union monitoring ensures both thorough and effective assessment of credit union performance. The Corporation protects the Fund by intervening in response to elevated risk and performance deficiencies.

The supervisory process assesses performance and risk management in credit unions. This ensures credit unions meet regulatory expectations and operate with effective controls. The Corporation supplements regular credit union supervisory reviews with ongoing contact. Credit unions must submit quarterly financial reports, annual budgets and external audit reports. The Corporation may request monthly board reports and mid-year forecasts in some cases. Monitoring results form the basis of a composite risk rating for each credit union and in provincial aggregate.

The Corporation assesses credit union requests when they plan to engage in new lines of business, require exceptions to regulatory policy limits or enter into certain types of transactions, such as substantial investments or mergers. In 2015 the Corporation assessed and approved four requests for regulatory approval.

## **Corporate Operations**

The Corporate Operations division supports the Corporation in a variety of areas, including:

### **Governance**

A governance framework includes policies and practices that guide decisions and articulate the authority and accountability of board, management and staff. Board and audit committee self-assessments help the Corporation recognize opportunities for director development and enhanced corporate governance practices.

### **Enterprise risk management (ERM)**

An ERM framework outlines the Corporation's principal risks, risk appetite, risk tolerances and the actions taken to monitor and manage risks. A yearly corporate risk report summarizes the Corporation's risk assessment, including a consolidated risk map, overviews of each principal risk with a summary of its status, actions planned to mitigate, and the potential impact.

### **Performance measurement, planning and budgeting**

The Corporation's board and executive use the corporate risk report and corporate performance measurements, and factor in changes in the environment to identify key areas of strategic focus. This annual planning process supports the establishment of corporate goals, objectives and key initiatives. The Corporation's progress is measured and reported at each board meeting.

## **Business process support and information technology**

The business process support team manages the work of vendors that support the Corporation's information systems and technology requirements. The team continually reviews technology systems to ensure they meet the Corporation's business needs. The Corporation and its vendors use industry standard technology and processes, and follow best practices in security, privacy and data integration. Business continuity and disaster recovery plans address the need to recover operations from an unforeseen, significant business disruption. The Corporation regularly reviews and updates these plans.

### **Accounting and reporting**

The corporate operations team oversees accounting and reporting processes, and manages the relationship with our accounting services supplier. This work includes review and approval of accounts payable and routine transaction processing. The team also manages the processes for monthly reporting and account reconciliations, quarterly financial statements and budget variance analysis, corporate tax, and annual external financial statements.

### **Communication**

The corporate operations team is responsible for maintaining visual and writing standards and for producing and maintaining communication tools, such as the corporate web site and print publications.

### **Support services relationships**

A support services agreement provides the Corporation with specialized services and expertise. This allows staff to focus on core operations. Support is contracted in areas such as:

- internal audit
- accounting and reporting
- marketing and communications
- corporate administration
- distribution services
- facilities
- strategic support – research
- information technology
- telecommunications
- human resource processes

### **Human resources**

Regular surveys and team building events help the Corporation maintain an engaged, enthusiastic workforce. Recognizing the importance of continuing education and technical knowledge, the Corporation supports employees pursuing advanced educational qualifications, including degree programs and professional designations. Human resource policies and practices, benefits and compensation are reviewed regularly.

### **Audit and compliance**

Auditing services give the Corporation assurance that its risk management, governance and internal control processes operate effectively. Management works with the auditors to identify and assess risks. The results of this work form the basis of internal and external audit plans. The outcomes of the internal audit, the year-end compliance process and the external audit are reported to the audit committee. The corporate operations team acts as liaison with the auditors.

### **Looking forward**

In 2016 the Corporation will continue to invest in the people, processes and systems that support its day-to-day operations. We will further integrate risk management into our planning processes, measuring our performance against established risk tolerances. We will continue to promote and encourage the constructive culture that helps the Corporation attract and maintain a skilled, professional workforce.

## ENTERPRISE RISK MANAGEMENT

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Through its role in the financial services industry, the Corporation is exposed to a variety of risks during the normal course of business. Enterprise risk management is a process used to identify, assess and mitigate risks across the Corporation. This drives development of the goals, objectives and strategies that guide the organization's strategic and business plans. It also provides direction for the Corporation's priorities and resource allocation.

The Corporation's ERM framework describes the organization's principal risks, risk appetite and risk tolerances, and includes actions taken to effectively manage and monitor risks. Twice a year, management analyzes the current operating environment and updates the risk assessment. The board reviews the corporate risk report annually.

### Enterprise level risk appetite statements

The following enterprise level risk appetite statements define the level of risk the Corporation is willing to assume to achieve its objectives:

- We will only restrict credit union activities by creating and enforcing regulations and guidelines that will allow credit unions to take prudent risks during the course of their business.
- We regulate with an emphasis on preventing the need for payouts to depositors.
- We will maintain the Fund at a level sufficient to instill confidence in credit union depositors and other stakeholders.
- We avoid actions that would damage the Corporation or credit union system's reputation in the eyes of our stakeholders.
- We maintain our operations at a level that supports our mandate. We will spend what is needed, but only what is needed, to acquire the capacity to regulate prudently.

### 2015 risk assessment

The Corporation's 2015 risk assessment reflects the relative stability of the credit union system. Despite a downturn in the provincial economy and continued low interest rates, aggregate credit union performance is strong.

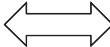
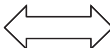

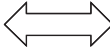
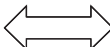

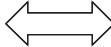

For 2015 the Corporation saw a slight change in the level of risk in just one area: legislative and governance model. This is defined as the risk of not having an effective model for regulating credit unions.

The likelihood of this risk increased slightly as a result of recent developments related to the passage of Bill C-43 and other measures to clarify responsibility for regulation of the Canadian credit union sector. While there has been considerable progress made in identifying the structure of legislative provisions as a result of Bill C-43, a fully developed legislative regulatory framework has not yet been completed.

Management will continue working with a variety of stakeholders at the provincial and national level to respond to these developments and ensure the regulatory framework for Saskatchewan credit unions remains appropriate.

The Corporation monitors 20 individual risks divided into the five principal categories seen below. Management analyzes the current operating environment and updates the residual risk assessment for each principal risk twice a year. While this analysis is conducted at a specific point in time, plans are created by

forecasting into the future using the best information available. The Corporation continually scans the environment and reviews economic forecasts and events for potential impacts at a national, regional or provincial level.

Risk Category	Definition	Direction of Risk
Risk to Depositors	Risks to the strength and stability of Saskatchewan credit unions arising from a broad range of economic and environmental factors that may impact depositors' confidence.	
Strategic Risk	Risks associated with the overall effectiveness of the board and management of the organization, including the ability to develop and execute appropriate business plans and strategies.	
Regulatory Risk	Risks associated with the failure to comply with laws, rules, regulations, prescribed practices or ethical standards within which the Corporation is governed.	
Operational Risk	Risks associated with the performance of business functions or processes within the Corporation. Risks may arise from deficiencies or breakdowns relative to the control environment, technology and information systems, human capital or communication methods.	
Financial Risk	Risks associated with the Corporation's ability to meet financial obligations and prudently manage its fiscal responsibilities.	
Legend	Increased  Unchanged  Decreased 	

## FINANCIAL SUMMARY

### Deposit Guarantee Fund

The Deposit Guarantee Fund (the Fund) began with credit union contributions in 1953. Today it is one of the strongest funds in North America. Now sustained by investment interest and annual assessments paid by credit unions, the Fund covers the costs of the Corporation's deposit protection and regulatory responsibilities.

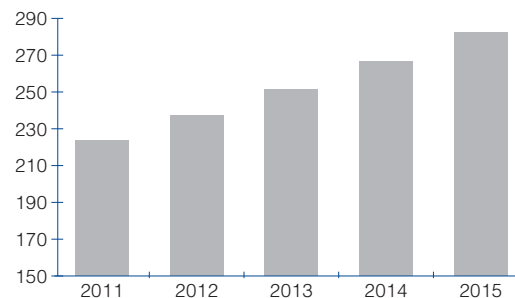
Effective deposit protection enables the Corporation to offer a full guarantee on deposit held in Saskatchewan credit unions. The first level of deposit protection is a regulatory framework that ensures credit unions operate prudently, adhering to the Standards of Sound Business Practice and regulatory guidance provided by the Corporation. At the second (local) level, credit unions maintain strong capital reserves that allow them to meet their obligations to depositors on an ongoing basis. As a further level of assurance, the Fund is available to protect depositors should the need arise.

The target range for the fund is 1.4% to 1.6% of total deposits, plus the amount of any deficiencies in credit unions' regulatory capital. The range is set based on a percentage of deposits held by Saskatchewan credit unions. The Corporation aims to establish a range that instills confidence, comfortably accommodates all anticipated risks to the Fund during normal business cycles, and provides a cushion for more difficult periods.

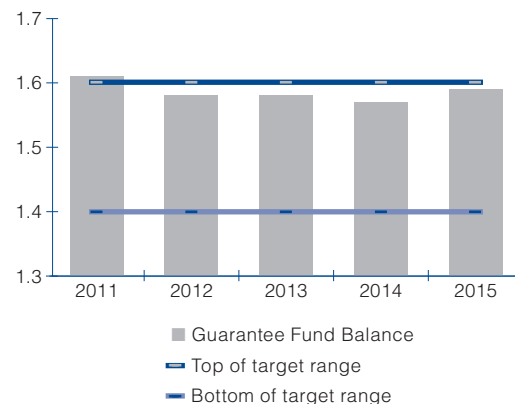
The current fund target range reflects the fact that Saskatchewan credit unions remain strong and stable, and have successfully evolved their capital and risk management practices. It also balances the Corporation's obligation to depositors with the cost to Saskatchewan credit unions.

At December 31, 2015 the balance of the Fund was \$282.3 million or 1.59% of total deposits. This is well within the Corporation's target range of 1.4% to 1.6%.

**Guarantee Fund Balance**  
(in \$ millions)



**Guarantee Fund Balance**  
(% of total credit union deposits plus capital deficiencies)

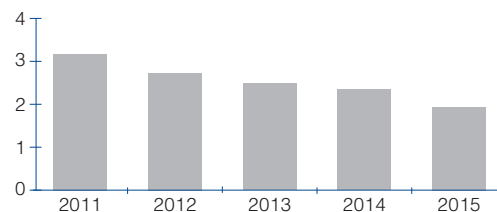


### Income and assessments

For 2015, the board approved an assessment of 0.09% of total credit union deposits held at year end. The assessment has remained at this level since 2009. The assessment remains stable, competitive and equitable, positioning credit unions to continue to build capital.

Another source of revenue is the interest earned on the Fund's investments. At December 31, 2015, the overall yield was 1.94%, lower than 2014, but well above the Corporation's investment policy target.

**Yield on Investments (%)**  
(At December 31)



In thousands (\$)	2011	2012	2013	2014	2015
Guarantee Fund assessments	11,437	12,464	13,472	14,371	15,306
Investment income	7,345	6,810	6,423	6,344	5,890
Recovery from unclaimed balances	0	0	0	38	0
<b>Total income and assessments</b>	<b>18,782</b>	<b>19,274</b>	<b>19,895</b>	<b>20,753</b>	<b>21,196</b>

### Operating expenses

In thousands (\$)	2011	2012	2013	2014	2015
Credit union assistance (recovery)	500	350	65	107	20
Operations	5,051	5,179	5,184	5,356	5,520
<b>Total operating expenses</b>	<b>5,551</b>	<b>5,529</b>	<b>5,249</b>	<b>5,463</b>	<b>5,540</b>

## MANAGEMENT'S RESPONSIBILITY

Management of the Corporation is responsible for preparing and ensuring the integrity, reliability and completeness of the accompanying financial statements. All financial statements were prepared in accordance with International Financial Reporting Standards.

In discharging its responsibility, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, proper records maintained and assets safeguarded.

The audit committee, on behalf of the board of directors of the Corporation, oversees management's responsibilities for the financial reporting procedures and internal control systems. The audit committee reviews the financial statements in detail prior to recommending approval to the board of the statements for publication.

The audit committee recommends the appointment of the external auditor and reviews the terms of the external audit engagement, annual fees, audit plans and scope, and management letter recommendations.



Garth Melle  
Chief Executive Officer



Linda Jacob  
Vice-President, Corporate Operations

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Credit Union Deposit Guarantee Corporation

We have audited the accompanying financial statements of Credit Union Deposit Guarantee Corporation, which comprise the statement of financial position as at December 31, 2015, and the statement of operations, other comprehensive income and fund balance and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Credit Union Deposit Guarantee Corporation as at December 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

The image shows a handwritten signature in cursive script that reads "Deloitte LLP".

Chartered Professional Accountants, Chartered Accountants  
Licensed Professional Accountants

Regina, Saskatchewan  
March 4, 2016

Credit Union Deposit Guarantee Corporation  
**2015 FINANCIAL STATEMENTS**

As at December 31 [in thousands]

**STATEMENT OF FINANCIAL POSITION**

	2015 \$	2014 \$
<b>Assets</b>		
Cash and cash equivalents [note 4]	566	406
Accounts receivable	4	–
Income tax receivable [note 7]	78	26
Investments [note 5, 8, 11 and 13]	282,328	266,922
	<b>282,976</b>	267,354
<b>Liabilities</b>		
Accounts payable [note 6]	680	676
Accrual for credit union assistance	20	–
	<b>700</b>	676
<b>Fund balance</b>		
Deposit Guarantee Fund [note 12]	282,276	266,678
	<b>282,976</b>	267,354

See accompanying notes

On behalf of the Board of Directors:



Director



Director

Credit Union Deposit Guarantee Corporation  
**2015 FINANCIAL STATEMENTS**

For the year ended December 31 [in thousands]

**STATEMENT OF OPERATIONS, OTHER COMPREHENSIVE INCOME AND FUND BALANCE**

	2015 \$	2014 \$
<b>Revenue</b>		
Credit union assessment	15,306	14,371
Interest from investments	5,890	6,344
Recovery from unclaimed balances	—	38
	<b>21,196</b>	20,753
<b>Expenses</b>		
Credit union assistance	20	107
Operational services [note 9]	5,520	5,356
	<b>5,540</b>	5,463
Income before income tax expense	15,656	15,290
Income tax expense [note 7]	58	136
Net income and total comprehensive income	15,598	15,154
Fund balance, beginning of year	266,678	251,524
Net income and total comprehensive income	15,598	15,154
Fund balance, end of year	<b>282,276</b>	266,678

See accompanying notes

Credit Union Deposit Guarantee Corporation  
**2015 FINANCIAL STATEMENTS**

*For the year ended December 31 [in thousands]*

**STATEMENT OF CASH FLOWS**

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
<b>Cash flows from operating activities</b>		
Net income and total comprehensive income	15,598	15,154
Adjustments for:		
Amortization of investment premiums	1,918	1,914
Interest from investments	(7,804)	(8,254)
Income tax expense	58	136
Changes in non-cash working capital:		
Accounts receivable	(4)	–
Accrual for credit union assistance	20	–
Accounts payable	4	93
Interest received	7,745	8,344
Income tax paid	(110)	(121)
<b>Cash flows from operating activities</b>	<b>17,425</b>	<b>17,266</b>
<b>Cash flows (used in) from investing activities</b>		
Purchase of investments	(80,777)	(93,356)
Proceeds from redemption of investments	63,512	75,901
<b>Cash flows (used in) from investing activities</b>	<b>(17,265)</b>	<b>(17,455)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>160</b>	<b>(189)</b>
Cash and cash equivalents, beginning of year	406	595
<b>Cash and cash equivalents, end of year</b>	<b>566</b>	<b>406</b>

*See accompanying notes*

Credit Union Deposit Guarantee Corporation  
**NOTES TO THE FINANCIAL STATEMENTS**

Year ended December 31 [in thousands]

## **1. NATURE OF OPERATIONS**

Credit Union Deposit Guarantee Corporation (the Corporation) is a body corporate established and continued by Section 442 of *The Credit Union Act, 1998*. It has existed since July 1, 1952 and commenced operations in 1953. The Corporation is responsible for guaranteeing repayment to depositors of the full amount of deposits held in Saskatchewan credit unions. The Corporation operates within policies and standards established by its board of directors (the board). Management exercises judgment in establishing financial commitments.

The Corporation is domiciled in Canada. The address of the Corporation's office is 2055 Albert Street, Regina, Saskatchewan, S4P 3G8.

Prevention is a primary deposit protection strategy for the Corporation. Programs are sponsored and developed to strengthen the knowledge and skills of credit union decision-makers. Credit union performance is monitored in accordance with the Standards of Sound Business Practice to ensure early identification of risks and actions required to protect deposits.

The Deposit Guarantee Fund (the Fund) is funded through investment earnings and an annual assessment collected from credit unions. The Corporation has established a fund target range based on credit union system deposits plus individual credit union capital deficiencies. The Corporation collects an annual assessment that is adjusted periodically in relation to the fund target range.

## **2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE**

### **a) Statement of Compliance**

The financial statements have been prepared in accordance with subsection 457(3) of *The Credit Union Act, 1998*. Section 457 states that, except as otherwise specified in the regulations, the annual statements must be prepared in accordance with Canadian Generally Accepted Accounting Principles (Canadian GAAP). Canadian GAAP for publicly accountable enterprises is International Financial Reporting Standards (IFRS). The Corporation's financial statements are prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB).

The financial statements for the year ended December 31, 2015 were authorized for issue by the board on March 4, 2016.

### **b) Basis of measurement**

The financial statements have been prepared on the historical cost basis.

### **c) Functional and presentation currency**

These financial statements are presented in Canadian dollars, which is the Corporation's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

**Credit Union Deposit Guarantee Corporation**  
**NOTES TO THE FINANCIAL STATEMENTS**

*Year ended December 31 [in thousands]*

## **2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE (continued)**

### **d) Use of estimates and judgments**

The preparation of the financial statements in compliance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from those estimates thereby affecting the financial statements. Management believes that the underlying assumptions are appropriate and that the Corporation's financial statements fairly present its financial position and operating results.

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 and in any future periods affected.

The most significant uses of judgments and estimates are discussed under Note 3(c) credit union assistance.

### **e) Changes in accounting policies**

The Corporation has not adopted any new accounting policies effective for its fiscal year ended December 31, 2015.

## **3. SIGNIFICANT ACCOUNTING POLICIES**

### **a) Financial instruments**

Financial assets and financial liabilities are initially recognized at their fair value at acquisition. Subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Corporation's designation of such instruments. Settlement date accounting is used.

#### **Classification**

Cash and cash equivalents	Loans and receivables
Accounts receivable	Loans and receivables
Investments	Held to maturity
Accounts payable	Other liabilities

#### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

#### **Held to maturity**

Held to maturity financial assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity that the Corporation has the positive intention and ability to hold to maturity.

Held to maturity financial assets are subsequently measured at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

#### **Other liabilities**

Other liabilities include liabilities that are measured at amortized cost using the effective interest method.

Credit Union Deposit Guarantee Corporation  
**NOTES TO THE FINANCIAL STATEMENTS**

Year ended December 31 [in thousands]

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

#### **a) Financial instruments (continued)**

##### **Effective interest method**

The effective interest method is used to calculate the amortized cost of a financial asset or financial liability and to allocate interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instruments.

##### **Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand and on deposit.

##### **Transaction costs**

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. The Corporation recognizes material transaction costs as part of the carrying amount of all financial instruments.

##### **Fair value**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

In estimating the fair value of an asset or liability, the Corporation takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for disclosure purposes in these financial statements is determined on such a basis.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of their inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

##### **Financial asset impairment**

The Corporation assesses financial assets for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that have occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been affected.

For financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, indications that the borrower will enter bankruptcy, disappearance of an active market for the security, or other observable data relating to a portfolio of assets such as adverse changes in the payment status of borrowers in the portfolio, or national or local economic conditions that correlate with defaults on the assets in the portfolio.

**Credit Union Deposit Guarantee Corporation**  
**NOTES TO THE FINANCIAL STATEMENTS**

*Year ended December 31 [in thousands]*

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

#### **a) Financial instruments (continued)**

##### **Financial asset impairment (continued)**

Impairment losses on financial assets carried at amortized cost are measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets. Impairment losses are recognized in the statement of operations, comprehensive income and fund balance.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

#### **b) Revenue recognition**

##### **Assessment revenue**

Assessment revenue is recognized in the year the assessment is charged to credit unions. Rebates are recognized when authorized by the board and distributed to credit unions.

##### **Interest from investments**

Investment interest income is recognized on the accrual basis using the effective interest method. Purchase premiums and discounts are amortized using the effective interest method over the term to maturity of the applicable investment.

#### **c) Credit union assistance**

Credit union assistance is recorded only when it can be reasonably determined by the Corporation that such a payment will be required. A provision for assistance requires the exercise of judgment because the precise amount, method and timing of such assistance are dependent upon future events. Actual results could differ from these estimates.

An individual provision for assistance will be established when it can be reasonably determined by the Corporation that financial assistance is required and can be attributed to an individual credit union. The amount of the provision will be determined by management's assessment of:

- an individual credit union's financial strength, including capital strength to absorb potential losses
- whether the credit union appears to have appropriately valued assets including reasonable levels of collective and individual allowances
- amalgamation and other rehabilitation support requirements

A general provision for assistance builds on the concept of early recognition of potential assistance situations. The provision is based on the likelihood of the need for future credit union assistance, considering credit unions' financial strength, the potential impact of the market and economic conditions and the Corporation's historic loss experience.

Credit Union Deposit Guarantee Corporation  
**NOTES TO THE FINANCIAL STATEMENTS**

Year ended December 31 [in thousands]

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

#### **d) Employee future benefits**

The Corporation's employee future benefit program is a defined contribution pension plan. A defined contribution plan is a post-employment benefit plan under which the Corporation pays fixed contributions to a separate entity. The Corporation has no legal or constructive obligation to pay further contributions if the plan does not hold sufficient assets to provide pension benefits commensurate with past services.

The Corporation's contributions to the defined contribution plan are expensed as incurred. Pension funds of \$187 (2014 – \$180) were paid to defined contribution retirement plans during the year.

#### **e) Taxation**

##### **Current income tax**

Income tax expense comprises current taxes and is recognized in the statement of operations, other comprehensive income and fund balance. Income tax payable (receivable) is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognized as an expense (income) for the period.

##### **Deferred income tax**

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Corporation's financial statements.

#### **f) New and revised IFRSs issued but not yet effective**

##### **Financial instruments**

The Corporation has not yet applied IFRS 9 – Financial Instruments (IFRS 9). IFRS 9 is expected to impact the classification and measurement of financial assets and financial liabilities.

On July 24, 2014 the IASB issued the final version of IFRS 9, which replaces the current accounting standard IAS 39 – Financial instruments: recognition and measurement (IAS 39). This standard is effective for annual periods beginning on or after January 1, 2018.

Key requirements of IFRS 9:

All recognized financial assets that are within the scope of IAS 39 are to be subsequently measured at amortized cost or fair value. Specifically, debt investments 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 on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income (FVTOCI). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity instrument (that is not held-for-trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

**Credit Union Deposit Guarantee Corporation**  
**NOTES TO THE FINANCIAL STATEMENTS**

*Year ended December 31 [in thousands]*

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

#### **f) New and revised IFRSs issued but not yet effective (continued)**

##### **Financial instruments (continued)**

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

The Corporation anticipates that the application of IFRS 9 in the future may have an impact on amounts reported in respect to the Corporation's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

##### **Revenue from contracts with customers**

IFRS 15, Revenue from Contracts with Customers (IFRS 15), is a new standard that addresses the recognition of revenue from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18, Revenue (IAS 18), IAS 11 Construction Contracts and the related Interpretations when it becomes effective. Under IFRS 15, a customer of an entity is a party that has contracted with the entity to obtain goods or services that are an output of the entity'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 instruments are no longer within the scope of IFRS 15. Instead they are within the scope of IAS 39 (or IFRS 9, once adopted).

The core principle of the new standard is the recognition of revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the entity expects to be entitled in the exchange for those goods or services. Specifically, IFRS 15 introduces a five-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied (i.e. when control of the goods or services underlying the particular performance obligation is transferred to the customer). Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Corporation is currently evaluating the impact of the new standard on its financial statements.

The Corporation has not adopted any new or revised IFRSs issued by the IASB that were mandatorily effective for an account period that begins on or after January 1, 2015.

The Corporation did not early adopt any new or amended standards in 2015.

Credit Union Deposit Guarantee Corporation  
**NOTES TO THE FINANCIAL STATEMENTS**

Year ended December 31 [in thousands]

#### 4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash held with Credit Union Central of Saskatchewan (SaskCentral) and an interest bearing operating account held with Concentra Financial Services Association (Concentra Financial). Cash and cash equivalents are comprised of the following balance sheet amounts:

	2015 \$	2014 \$
Cash balances	198	50
Interest bearing short-term account	368	356
Total	566	406

#### 5. INVESTMENTS

The Corporation invests in fixed income securities with priority on safety, liquidity and return, with repricing dates matching maturity dates for the majority of its investments.

The Corporation earned \$353 (2014 – \$301) from investments in Concentra Financial during the year.

Category	2015				2014			
	<i>Term to maturity</i>				Carrying value	Fair value	Carrying value	Fair value
	0-1 year	1-3 years	3-5 years	5-10 years				
Government of Canada \$	21,481	35,440	26,224	–	83,145	83,852	78,505	79,109
Yield <sup>(1)</sup>	1.37%	1.20%	1.36%	–	1.29%		1.84%	
Provincial governments \$	7,857	57,034	12,094	5,127	82,112	84,852	74,853	77,743
Yield <sup>(1)</sup>	2.94%	1.98%	2.38%	4.57%	2.29%		2.73%	
Municipals \$	2,624	3,147	–	–	5,771	6,042	10,349	10,841
Yield <sup>(1)</sup>	4.53%	4.68%	–	–	4.61%		4.60%	
Concentra Financial \$	7,250	4,750	–	–	12,000	12,202	12,000	12,169
Yield <sup>(1)</sup>	2.38%	2.20%	–	–	2.31%		2.41%	
Chartered banks \$	25,947	25,758	11,088	–	62,793	63,364	60,021	60,419
Yield <sup>(1)</sup>	2.22%	1.91%	2.12%	–	2.08%		2.25%	
Commercial securities \$	9,684	23,637	1,701	–	35,022	35,230	29,768	29,987
Yield <sup>(1)</sup>	1.68%	2.01%	1.14%	–	1.88%		2.04%	
	74,843	149,766	51,107	5,127	280,843	285,542	265,496	270,268
Accrued interest \$					1,485		1,426	
					282,328		266,922	

<sup>(1)</sup> represents weighted average effective interest rates based on year-end carrying values

**Credit Union Deposit Guarantee Corporation**  
**NOTES TO THE FINANCIAL STATEMENTS**

*Year ended December 31 [in thousands]*

**6. ACCOUNTS PAYABLE**

Accounts payable are generally paid within three months with the exception of unclaimed balances that are due on demand.

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Accounts payable	<b>427</b>	462
Unclaimed balances	<b>253</b>	214
	<b>680</b>	676

The Corporation is responsible to administer unclaimed balances received from credit unions pursuant to subsection 71(1) of *The Credit Union Act, 1998*, and subsections 10(1) and 11(1) of *The Credit Union Regulations, 1999*. The Corporation's policy is to retain unclaimed balances in accounts payable for 25 years following date of receipt by the Corporation, after which time these balances are recognized into income.

**7. INCOME TAXES**

Income taxes are included in the statement of operations as follows:

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Current income tax expense		
Relating to the current year	<b>58</b>	136
Relating to prior years	–	–
	<b>58</b>	136

Reconciliation of income tax expense:

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Income tax expense calculated at 13% (2014 – 13%)	<b>2,035</b>	1,988
Adjustments for the effect of:		
Non-taxable income*	<b>(1,990)</b>	(1,868)
Expenses not deductible for tax purposes	<b>13</b>	16
	<b>58</b>	136

\*Credit union assessments and assistance are non-taxable transactions.

Credit Union Deposit Guarantee Corporation  
**NOTES TO THE FINANCIAL STATEMENTS**

Year ended December 31 [in thousands]

**8. LINES OF CREDIT**

The Corporation has the following authorized lines of credit available with Concentra Financial:

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Operating line of credit	<b>2,000</b>	2,000
Line of credit for credit union assistance	<b>10,000</b>	10,000
	<b>12,000</b>	12,000

The lines of credit are renewed annually and have an interest rate equal to Concentra Financial's floating prime rate of interest, payable upon demand with interest payable monthly.

The Corporation has pledged investments with a market value of \$12,202 (2014 – \$12,169) and a carrying value of \$12,000 (2014 – \$12,000) as security for the lines of credit. The market value of pledged assets must be not less than 100% of the authorized credit as stated in the agreement. The Corporation monitors the pledged assets on a quarterly basis.

**9. OPERATIONAL SERVICES EXPENSES**

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Corporate governance	<b>128</b>	131
Salaries and benefits	<b>3,832</b>	3,633
Technology	<b>394</b>	483
Professional fees	<b>197</b>	156
Travel	<b>134</b>	145
Facilities	<b>215</b>	196
Contract services	<b>420</b>	430
Preventive services	<b>48</b>	42
Other	<b>152</b>	140
	<b>5,520</b>	5,356

Salaries and benefits and corporate governance expenses include payments to the board and executive management. This is further discussed in Note 10.

**Credit Union Deposit Guarantee Corporation**  
**NOTES TO THE FINANCIAL STATEMENTS**

*Year ended December 31 [in thousands]*

**10. RELATED PARTY TRANSACTIONS**

Related parties exist when one party has the ability to directly or indirectly exercise control, joint control or significant influence over the other or is a member of the key management personnel of the Corporation. Related party transactions are in the normal course of operations and are measured at the consideration established and agreed to by the parties. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

**Key management compensation**

Key management personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the Corporation, directly or indirectly. The Corporation's KMP are the board and executive management. The following is compensation of KMP, as included in Note 9.

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
<hr/>		
The board and board committees		
Per diems, honorariums and other benefits	<b>70</b>	68
<hr/>		
Executive management		
Salaries and other short-term employee benefits	<b>979</b>	876
Post-employment benefits	<b>68</b>	69
	<b>1,047</b>	945
<hr/>		
	<b>1,117</b>	1,013
<hr/>		

**11. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS**

The nature of the Corporation's holdings of financial instruments exposes the Corporation to credit, liquidity and market risk.

**Credit risk**

Credit risk is the risk of loss associated with a counterparty's inability or unwillingness to fulfill its payment obligations. Credit risk may arise from principal and interest amounts on the Corporation's investment portfolio.

The Corporation manages credit risk through adherence to board-approved policy and practice for the acquisition of investments. Safety of principal is accomplished by ensuring that all investments purchased are reasonable and prudent. Investment decisions are made with due diligence to avoid undue risk of loss while obtaining a reasonable return. The Corporation has established a listing of eligible investments that meet the above requirements.

This listing is based on high credit quality ratings from Dominion Bond Rating Service (DBRS) and/or Standard & Poor's (S&P) and also includes unrated Concentra Financial term deposits.

The Corporation monitors investments on a monthly basis. The status of the investment portfolio in relation to performance targets and limits is reported to the board at each regular board meeting. An exception to policy will be immediately reported to the chief executive officer and in writing to the audit committee.

Credit Union Deposit Guarantee Corporation  
**NOTES TO THE FINANCIAL STATEMENTS**

Year ended December 31 [in thousands]

**11. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)**

**Credit risk (continued)**

The Corporation's investment portfolio credit quality ratings are as follows:

<b>Investment Portfolio Rating*</b>	<b>2015 Carrying Amount \$</b>	<b>2014 Carrying Amount \$</b>
AAA	<b>83,315</b>	102,308
AA	<b>85,700</b>	79,469
A	<b>96,168</b>	71,719
BBB	<b>3,660</b>	–
Unrated	<b>12,000</b>	12,000
	<b>280,843</b>	265,496
Accrued interest	<b>1,485</b>	1,426
<b>Total investments</b>	<b>282,328</b>	266,922

\*per DBRS and/or S&P

During the year, a corporate security was downgraded from A to BBB, which resulted in the Corporation being outside of its investment policy parameters. While the investment portfolio remains below policy rating limits, the credit quality of the security remains at investment grade. Management does not believe that the recent developments of this security present a threat to the safety of the principal of that security, nor do they indicate impairment of the security. Due to the limited exposure to this particular security, the board accepted management's recommendation to retain the investment until the security matures on October 11, 2016.

**Market risk**

Market risk is the risk of loss that may arise from changes in market factors, notably interest rates. Interest rate risk is the potential adverse impact on earnings due to changes in interest rates. The Corporation's policy is to primarily invest in fixed income securities and to purchase with the intent to hold to maturity. Accordingly, interest rate risk arises from the re-pricing of investments as they mature.

The Corporation will not participate in lending of securities or purchasing of investments in foreign currencies, nor participate in derivative transactions. These policies help to mitigate the Corporation's exposure to market risk.

The investment portfolio is monitored by management on a monthly basis to ensure compliance with the policies, and reported to the board at each regular board meeting.

The fair value of the investment portfolio is subject to fluctuation as a result of normal market risk. The principal factor influencing the fair value is the prevailing rate of interest. Applying a present value calculation demonstrates that an increase of 1% in interest rates will result in a decrease of approximately \$4,802 or 1.71% (December 31, 2014 – \$5,204 or 1.96%) in the fair value of the investment portfolio. Conversely, a decrease of 1% in interest rates will result in an increase in the fair value of the same amount. Changes to interest rates have no impact on net income because investments are classified as held to maturity.

**Credit Union Deposit Guarantee Corporation**  
**NOTES TO THE FINANCIAL STATEMENTS**

*Year ended December 31 [in thousands]*

## **11. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)**

### **Liquidity risk**

Liquidity risk arises from the inability to generate or obtain the necessary cash or its equivalents in a timely manner, at a reasonable price, to meet organizational commitments. In particular, the risk arises from failure to meet the Corporation's day-to-day operational needs or deposit protection obligations.

The Corporation must maintain sufficient liquidity to meet its cash flow obligations. The ability of the Corporation to meet cash flow obligations is achieved by the structure of investments and identification of operational requirements. Accordingly, the Corporation's investment policy includes liquidity score parameters to help mitigate liquidity risk. The status of the investment portfolio in relation to these parameters is monitored on a regular basis and reported to the board at each regular board meeting.

The liquidity score is a weighted average rating calculated on the investment portfolio that reflects probable loss upon immediate liquidation. The rating criteria are described as follows:

- Rating 4 – investments can be sold immediately to any dealer
- Rating 3 – investments can be sold quickly (i.e. within two business days), with a pricing discount that is not anticipated to be significant
- Rating 2 – investments can be sold, but there are limited buyers, it may take up to five business days to execute a sale and the pricing discount is anticipated to be moderate to significant
- Rating 1 – investments can be sold, but there are very limited buyers, it may take a prolonged period of time to execute a sale and the pricing discount is anticipated to be severe
- Rating 0 – investments are illiquid and unable to be sold

The Corporation's policy is to maintain a minimum liquidity score of 3.0. At December 31, 2015, the liquidity score is 3.4 (2014 – 3.3).

To further manage liquidity risk, the Corporation has \$12 million in authorized lines of credit available with Concentra Financial (Note 8).

## **12. FUND MANAGEMENT**

The Corporation's objective when managing the Fund is to establish a fund target range that instills confidence, comfortably accommodating all anticipated risks to the Fund during normal business cycles, and provides a cushion in more difficult periods. The current target range for the Fund is 1.4% to 1.6% of total deposits, plus the amount of any deficiencies in credit unions' regulatory capital. At December 31, 2015, the Fund is 1.59% (2014 – 1.57%) of total deposits and there are no credit union capital deficiencies.

The Corporation is not subject to externally imposed capital requirements. Management monitors the Fund balance on a regular basis. Quarterly financial reporting to the board includes the Fund status. If at any time the Fund balance is below or in excess of the target, management will provide the board with a documented plan to bring the Fund back in line with the policy.

Credit Union Deposit Guarantee Corporation  
**NOTES TO THE FINANCIAL STATEMENTS**

Year ended December 31 [in thousands]

**13. FAIR VALUE MEASUREMENT**

**Fair value of financial assets and liabilities that are not measured at fair value (but fair value disclosure is required)**

The Corporation considers the carrying amount of financial assets and financial liabilities, other than investments, recognized in the financial statements to approximate their fair values. Investments are measured at amortized cost and the fair value of investments is disclosed in Note 5.

<b>Fair Value Hierarchy Investments</b>	<b>2015 \$</b>	<b>2014 \$</b>
Level 1	–	–
Level 2	<b>285,542</b>	270,268
Level 3	–	–
	<b>285,542</b>	270,268

The fair values of the financial assets included in the Level 2 category above have been determined in accordance with generally accepted pricing models based on either quoted prices obtained from Bloomberg or a discounted cash flow analysis, with the most significant inputs being the appropriate discount rate for the instrument, which is obtained from observable data for similar instruments.

There have been no transfers between levels in the hierarchy and no changes to the valuation methods during the period.

## SASKATCHEWAN CREDIT UNIONS

Regulated credit unions in Saskatchewan as of December 31, 2015

Credit Union Name	Head Office
Accent Credit Union	Quill Lake
Affinity Credit Union 2013	Saskatoon
Bengough Credit Union	Bengough
Biggar and District Credit Union	Biggar
Bruno Savings and Credit Union Limited	Bruno
Churchbridge Credit Union	Churchbridge
CONEXUS Credit Union 2006	Regina
Cornerstone Credit Union Financial Group Limited	Yorkton
Crossroads Credit Union	Canora
Cypress Credit Union Limited	Maple Creek
Debden Credit Union Limited	Debden
Delisle Credit Union Limited	Delisle
Diamond North Credit Union	Nipawin
Dodsland and District Credit Union Limited	Dodsland
Earl Grey Credit Union Limited	Earl Grey
Edam Credit Union Limited	Edam
Foam Lake Savings and Credit Union Limited	Foam Lake
Goodsoil Credit Union Limited	Goodsoil
Govan Credit Union Limited <sup>1</sup>	Govan
Herbert Credit Union Limited <sup>2</sup>	Herbert
Horizon Credit Union	Melville
Innovation Credit Union	Swift Current
Kerrobert Credit Union Limited	Kerrobert
Lafleche Credit Union Limited	Lafleche
Landis Credit Union Limited	Landis

Credit Union Name	Head Office
LeRoy Credit Union Limited	LeRoy
Luseland Credit Union Limited	Luseland
Macklin Credit Union Limited	Macklin
Morse Credit Union, Limited <sup>2</sup>	Morse
New Community Credit Union	Saskatoon
North Valley Credit Union	Esterhazy
Pierceland Credit Union Limited	Pierceland
Plainsview Credit Union	Kipling
Porcupine Credit Union Limited	Porcupine Plain
Prairie Centre Credit Union (2006) Limited	Rosetown
Prairie Pride Credit Union	Alameda
Radius Credit Union Limited	Ogema
Raymore Savings and Credit Union Limited	Raymore
Rockglen-Killdeer Credit Union Limited	Rockglen
Sandhills Credit Union Limited	Leader
Saskatoon City Employees Credit Union	Saskatoon
Spiritwood Credit Union Limited	Spiritwood
St. Gregor Credit Union, Limited	St. Gregor
Stoughton Credit Union Limited	Stoughton
Synergy Credit Union Ltd.	Lloydminster
TCU Financial Group Credit Union	Saskatoon
Turtleford Credit Union Limited	Turtleford
Unity Credit Union Limited	Unity
Weyburn Credit Union Limited	Weyburn

<sup>1</sup> Merging with Plainsview Credit Union, January 1, 2016

<sup>2</sup> Merging with Prairie Centre Credit Union (2006) Ltd., January 1, 2016

## OPERATING PRINCIPLES

Our principles provide direction on how to carry out the Corporation's roles and responsibilities. They are what make us unique. These philosophical insights have contributed to the Corporation's notable success throughout its history and provide guidance in shaping the Corporation's future.

### Self-Regulation

As the primary prudential and solvency regulator, we support and encourage a successful credit union system by working with stakeholders to balance prudential regulation with market forces.

We recognize the need for credit unions to evolve in the marketplace and we support a strong and prosperous credit union system by:

- focusing on the future of the financial services industry
- striving towards leading edge approaches and industry best practices
- developing flexible and enabling approaches to effective and efficient regulation

Our role is to regulate, not to manage. Our actions demonstrate our preference to prescribe rather than restrict, and demonstrate our respect for a credit union's right to determine its own destiny.

We believe that effective deposit protection is accomplished through investments in prevention including:

- analyzing credit union performance on an ongoing basis to ensure early identification of potential risks
- communicating our expectations
- sponsoring and promoting programs that strengthen the knowledge and skills of credit union decision makers

### Authority, Responsibility, Accountability

#### Authority

- We clearly communicate to all stakeholders our authority to take action to protect deposits. The Corporation has the authority to act to fulfill its deposit protection responsibilities in the best interests of the credit union system.

#### Responsibility

- We exercise great care and judgment in carrying out the authority that has been granted to us.
- We are responsible to act when others are either unwilling or unable to take action on matters concerning credit union and system solvency and the safety of deposits.

#### Accountability

We demonstrate accountability through fiscal responsibility.

- We pursue economical business solutions to protect deposits and minimize costs to the credit union system.
- Our operating methods demonstrate effective and efficient use of system resources.

### Objectivity and Independence

Our actions are free of influence, interest or relationship that would impair professional judgment or objectivity.

We act independently and in the best interests of the Corporation to protect depositors' funds.

We carry out our responsibilities fairly and consistently, basing decisions on careful analysis of facts.

### Openness

We communicate openly with all stakeholders.

We respect our stakeholders' rights to privacy and confidentiality of information.

We value the opinions and ideas of our stakeholders and take care to ensure that we consult with them on matters that affect them.

### Collaborative Relationships

Through constructive relationships with our stakeholders, we create opportunities to enhance the overall quality and effectiveness of our results.

We believe that the best solutions are arrived at by working with others to build common understanding and to identify and achieve common goals.

