ANNUAL REPORT 2018

DEPOSIT PROTECTION & REGULATORY EXCELLENCE

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

DEPOSITS GUARANTEED

SINCE 1953

MANDATE

Credit Union Deposit Guarantee Corporation (the Corporation) is the deposit guarantor for Saskatchewan credit unions, and the primary regulator for credit unions and Credit Union Central of Saskatchewan (SaskCentral), together, Provincially Regulated Financial Institutions or "PRFIs", as directed in provincial legislation – *The Credit Union Act, 1998 and The Credit Union Central of Saskatchewan Act, 2016*. The Corporation instills confidence in the province's credit union system with a mandate of:

- guaranteeing the repayment of deposits in Saskatchewan credit unions
- establishing regulatory standards and ensuring PRFIs are performing to those standards
- promoting responsible governance by PRFIs, and contributing to the strength and stability of the credit union system
- directing PRFIs to take remedial action on material deficiencies, and any issue that may put depositors' funds at risk and;
- maintaining and managing a guarantee fund in a sound and prudent manner

VISION

To instill public confidence in the Saskatchewan credit union system.

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 mandate and strategic focus.

CO-OPERATION: As part of the co-operative financial services system, we respect co-operative principles and support credit unions and SaskCentral 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 judgment, fairness and consistency.

RESPONSIBLE REGULATION: We act to protect the rights and interests of Saskatchewan depositors. We strike an appropriate regulatory balance that effectively protects depositors without unduly impairing a credit union's 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 PFRIs.

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.

STRATEGIC DIRECTION

To ensure the effective regulation of the Saskatchewan credit union system by continuing to adhere to national and international best practices. To promote and lead discussions with our stakeholders regarding emerging issues and the changing environment. The Corporation will continue to be flexible and adaptive.

TABLE OF CONTENTS

REPORT FROM THE CHAIR

On behalf of the Board of Directors, I am pleased to present the 2018 annual report of Credit Union Deposit Guarantee Corporation of Saskatchewan. In spite of the province's economic pressures, our credit unions continued to perform well and remain strong and stable. The system continues to improve profitability, efficiency, capital and liquidity ratios, all of which achieved record year-end levels. These key indicators demonstrate our credit unions are managing the challenges of a competitive marketplace while retaining their cooperative principles.

One of our key initiatives in 2018 has been working with the Bank of Canada (the Bank) to explore the potential for emergency lending assistance (ELA). The Corporation executed a Memorandum of Understanding with the Bank to facilitate information sharing, and enhance their understanding of the Saskatchewan credit union system and our regulatory framework. The feedback from the Bank has been very positive and we continue to be engaged to identify the expectations to proceed with ELA.

In addition to these efforts, the Corporation took measures to enhance our crisis management framework. Regulatory requirements were developed for a Provincially Systemic Important Financial Institution (P-SIFI) framework. The framework applies additional regulatory requirements on those institutions that are identified as systemically important due to their size, interconnectedness and complexity, and the impact they have on the provincial system and the guarantee fund. The Corporation has designated Conexus Credit Union, Affinity Credit Union and SaskCentral as P-SIFI's.

This year, the Corporation conducted independent assessments of the sustainability and adequacy of the Deposit Guarantee Fund (the Fund). The assessments benchmarked the Fund against other jurisdictions comparing both the fund size, and the methodology of setting and achieving deposit protection fund targets. The assessments concluded that the Fund remains one of the strongest of its kind. Based on the assessments, the Board concluded that the current Fund target range is appropriate.

The Corporation's board of directors continued to see changes in 2018. After having served on the Corporation's board for eight years, Tim Ward's term ended in January 2018. The Selection Committee conducted a recruitment process and chose Anne Parker to fill the vacant director position. In addition, Rupen Pandya, Deputy Minister of Finance, replaced Clare Isman midway through the year as the Ministry of Finance's representative. I would like to thank both Clare and Tim for their commitment and contributions while on our board.

In closing I want to acknowledge the work and dedication of the Corporation's staff. Due to the nature of its work, the Corporation places a high priority on attracting and retaining a skilled workforce. They have taken a leadership role in their work with other provincial jurisdictions and continue to ensure the Corporation's regulatory framework is aligned with best practices.

Daniel Ish

Daniel Ish

REPORT FROM THE CEO

In looking back on 2018, I am delighted with the accomplishments of the Corporation in the past year. The financial sector continues to see significant change and this has certainly contributed to significant developments for the Corporation.

Assuming the responsibility for providing regulatory oversight over SaskCentral in 2017 resulted in a significant initiative for the Corporation. Our Operational Review identified the need to transition 14 support services that were being outsourced to SaskCentral to new service suppliers or build internal capacity. This transition began with the transfer of audit and legal services to new independent third parties. In 2018 we sought to continue the transition of our most vital services, and initiated the process to contract new investment management and banking system providers. A request for proposals was issued, with an internal committee established to define the necessary criteria and review the proposals. Both of these services were successfully transitioned to new providers prior to the end of the year. Structural changes were identified to successfully transition several services to the Corporation and we began the process to build the necessary internal capacity.

At the provincial level, the Corporation continues our collaborative relationship with the Registrar of Credit Unions (the Registrar). A Memorandum of Understanding (MOU) was finalized between our two organizations. The MOU outlines the regulatory roles and responsibilities of each party relating to the regulation of Saskatchewan credit unions and SaskCentral. In addition we worked with the Registrar to jointly assess Innovation Credit Union's progress towards meeting the necessary provincial requirements to become a federal credit union. Through these efforts, the Corporation provided our approval to Innovation Credit Union, which permits them to continue to seek the remaining provincial and federal approvals that are required.

Saskatchewan's credit unions continue to perform very well in comparison with their competitors. Aggregately, the system enjoyed strong profitability, which contributed to improved efficiency levels and capital growth. Credit unions have increased their focus on managing balance sheets, contributing to improved liquidity levels and managed delinquency levels. Our provincial credit unions and SaskCentral have proven to be strong and stable organizations, and the Corporation remains committed to working with them to ensure their continued success.

Internally, the Corporation continues to foster a constructive culture, and to provide personal and leadership development to our staff. With the considerable changes that we are experiencing, the Corporation invested in customized training sessions in support of change management and personalized leadership development. Employee surveys continue to demonstrate high levels of satisfaction and organizational support for the Corporation.

Going forward, the Corporation will continue to maintain constructive relationships with our stakeholders while focussing on preventative measures to support our provincially regulated financial institutions.

Brent Schellenberg

CORPORATE GOVERNANCE

Corporate Governance Framework

The Corporation became the first deposit guarantor in Canada in 1953, and since that time has successfully guaranteed the full repayment of deposits held in Saskatchewan credit unions.

The Corporation demonstrates the strength of its regulatory regime through strong governance practices. The governance framework below identifies the five main roles in the process and outlines the relationship between board and management.

Role	Board Responsibilities	Management Responsibilities
Leader **Setting corporate direction**	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
Steward **Ensuring an effective control environment and allocation of resources**	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
Overseer **Exercising effective control**	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
Risk Manager **Ensuring risks to the Corporation and the system are monitored and controlled**	Reviews and approves an enterprise risk management framework that supports the proactive identification, assessment and management of significant risks and decision making Understands principal risks to credit unions and the Corporation, and monitors systems that are in place to manage those risks	Leads development and implementation of risk management policies, processes and procedures, and recommends risk management policies for board approval Develops risk tolerances in conjunction with the board and incorporates risk management into the strategic planning process Monitors and assesses risk, and reports to the board on risks and related results
Reporter **Presenting a fair and objective picture of the organization to stakeholders**	Approves policies for communicating effectively with stakeholders	Develops appropriate information for communicating with the board and stakeholders

Board of Directors

The board of directors governs the Corporation's business affairs. The board sets the strategic direction and ensures the Corporation's efforts reinforce the strength and stability of Saskatchewan credit unions and Credit Union Central of Saskatchewan (SaskCentral).

The Credit Union Act, 1998 (the CU Act) requires a selection committee, consisting of an equal number of individuals selected by each of SaskCentral and the minister, that selects individuals for appointment to the board. The selection committee appoints individuals who meet the criteria for competency and experience as established by the board.

The board consists of:

- the Deputy Ministry of Justice or the nominee of the Deputy Minister of Justice
- the Deputy Minister of Finance or the nominee of the Deputy Ministry of Finance
- five individuals appointed by the selection committee

On January 15, 2018, Tim Ward's term ended and Anne Parker was appointed by the selection committee as his replacement. On August 24, 2018 Rupen Pandya replaced Clare Isman as the Ministry of Finance representative.

On December 31, 2018, the Corporation's board was composed of the following individuals:

DAVE TULLOCH, MBA, CPA, CMA Saskatchewan Justice

Dave works for the Ministries of Justice and Attorney General, and Corrections and Policing as Assistant Deputy Minister responsible for Corporate Services. Prior to joining Justice in 2010, he held senior financial positions in the Ministries of Environment and Education. From 1999 to 2006 he worked in the provincial wildfire program, and was responsible for the development and implementation of a strategic planning and performance management framework. Through most of his career, Dave has worked primarily in the financial management and administrative functions of the provincial government. He holds a Master of Business Administration from the University of Saskatchewan, along with undergraduate degrees from the University of Regina in Business and Economics. Dave is also a Chartered Professional Accountant. He joined the Corporation's board as the Ministry of Justice representative in 2017.

RUPEN PANDYA, BA, MA Saskatchewan Finance

Rupen is the Deputy Minister of Finance and Secretary to Treasury Board. Prior to joining Finance in October 2017, he served as President and CEO of SaskBuilds, a Treasury Board Crown Corporation responsible for advising government on infrastructure priorities and alternative financing solutions. Rupen has held Assistant Deputy Minister roles with the Ministry of the Economy and the Ministry of Advanced Education, Employment and Immigration. He has served in the Saskatchewan Public Service for 21 years. He holds a Bachelor of Arts and Master of Arts from the University of Regina. He joined the Corporation's board as the Ministry of Finance representative in 2018.

DON HANSEN, BA (ECON.), FCPA, FCA Selection Committee Appointee

Don is contracted as a senior auditor with the Law Society of Sask. He is also a sessional lecturer at the Hill School of Business, University of Regina in Finance and Audit. From 2014 to 2017, as CEO of WeFit Canada Limited, Don led the development of wind energy production and investments in Canada. From 2009 to 2014 he held several contract positions with Concentra Financial in the roles of Chief Investment, Operating, Risk & Compliance, and Financial Officer positions. During his time at Concentra, he was responsible to develop and implement financial management and reporting systems, and provide strategic risk and compliance management (post the 2008 crisis management). Don developed and implemented new ERM and AML/ATF compliance and management frameworks within the OSFI regulated environment. Prior to this Don was a partner at MNP LLP Assurance Services, a managing partner at the MNP LLP Regina office and Director of Asset Liability Management at SaskCentral. He joined the Corporation's board in 2017. His current term will be ending on January 15, 2021.

DANIEL ISH, QC Selection Committee 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 joined the Corporation's board in 2010. His current term will be ending on January 15, 2022.

ANNE PARKER, LL.B, ICD.D Selection Committee Appointee

Anne is a seasoned corporate executive and general counsel with a deep breadth of experience in the regulated financial services industry, corporate governance, risk management and stakeholder relations. She retired from Greystone Managed Investments Inc. as Chief Operating Officer and General Counsel. Prior to joining Greystone, Anne held leadership positions with Communities of Tomorrow and IPSCO Inc. She is a past co-chair of the Institute of Corporate Directors for Saskatchewan and holds the ICD.D designation. As a dedicated community volunteer, Anne has served on the boards of numerous not-for-profit organizations. She currently serves on the boards of Frontier College, Frontier College Foundation and Women Lawyers Joining Hands. In addition, she is a Counsel member with the General Insurance Council of Saskatchewan and a member of the Saskatchewan Real Estate Commission. She joined the Corporation's board in 2018. Her current term will be ending on January 15, 2021.

GREG WALLACE Selection Committee Appointee

Greg has extensive credit union experience in a wide range of roles and responsibilities including board and management functions. His cooperative background spans more than 50 years. He has spent the majority of his career in senior and executive management positions within the Canadian credit union system. He has also consulted with credit unions in Central America, Asia and Africa. During his 25 years at the executive level, Greg has served on countless provincial and national credit union system boards, committees and task forces. He has been a board member of Credit Union Electronic Transaction Services (CUETS) and Credit Union Payment Services (CUPS), and participated in the creation of several credit union entities. Greg had a leadership role in the merger of Co-operative Trust Company of Canada and parts of SaskCentral forming Concentra Financial. He has been actively involved in the redrafting of legislation regulating the various provincial central organizations whose fundamental role is the management of liquidity risk for Canadian credit unions. He joined the Corporation's board in 2017. His current term will be ending on January 15, 2020.

BOB WATT, FCPA, FCA Selection Committee Appointee

Bob is an experienced professional accountant with broad-based skills developed during a forty-year career in public accounting, including 31 years as a partner. He retired from the Deloitte Regina office in 2010. His public accounting career included general management roles and client service responsibilities for major private and public companies in Saskatchewan, including several co-operative financial institutions. Through this involvement, he has had significant leadership interaction and experience with client and charitable boards of directors. Since retiring from Deloitte, Bob has carried on a part-time consulting practice and accepted several board appointments. He is currently the chair of the Audit and Risk Committee for Western Surety Company, and a member of the City of Regina Police Pension Plans board. In addition he is a member of the Investment Committee and chair of the Audit Committee for APEX Investment Funds (1 and 11).He joined the Corporation's board in 2017. His current term will be ending on January 15, 2020.

Audit Committee

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

- financial reporting
- internal control systems
- relationship with auditors
- adherence to policy and regulatory requirements
- business continuity and disaster recovery 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, 2018, the following directors were members of the audit committee:

- Bob Watt (Chair)
- Don Hansen
- Anne Parker
- Greg Wallace

Board and committee meeting attendance

The Corporation's board held five meetings in 2018, including a strategic planning session, while the audit committee met three times. The charts below outline director attendance at meetings (including directors who left or joined the board during the year).

Board

Name	Meetings Attended
Tulloch	4
Isman ◊	3
Pandya ◊	2
Ish	5
Hansen	5
Parker	5
Wallace	5
Watt	5

◊ Change in government appointment September 2018

Audit committee

Name	Meetings Attended
Hansen	3
Parker	2
Wallace	3
Watt	3

Board and committee remuneration

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

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

In 2018 the Corporation paid director compensation in the amount of $78,296, which includes honorariums, per diems and other benefits as outlined below.

Name	Honorarium	Per Diem	Benefits
Tulloch	-	-	-
Isman ◊	-	-	-
Pandya ◊	-	-	-
Ish	16,000	9,100	-
Hansen	7,500	4,500	507
Parker	7,187	5,500	756
Wallace	7,500	4,000	763
Ward ‡	313	-	70
Watt	7,500	7,100	-
Totals	**$46,000**	**$30,200**	**$2,096**

◊ Change in government appointment September 2018

‡ Term ended January 15, 2018

Executive Management

The executive management team provides strategic vision, leadership and direction to the Corporation:

BRENT SCHELLENBERG,
Chief Executive Officer

Brent has 35 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 led the Risk-Based Supervision team from 2009 until he became the Chief Executive Officer in 2017.

C.A. HATLELID, CPA, CMA, CFA, FRM
Vice-President Regulatory Policy and Prevention

C.A. has 25 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.

CORY STEPHEN, CFA
Vice-President Risk-Based Supervision

Cory has 14 years of financial industry experience, including risk management, corporate finance, investment management and treasury. Cory joined the Corporation in 2009, and became responsible for the Risk-Based Supervision team in 2017.

LINDA JACOB
Vice-President Corporate Operations

Linda has 42 years of credit union system experience including leadership positions in SaskCentral and Celero in areas such as information technology, project management, quality assurance, change management and training. Linda joined the Corporation in 2008 and became responsible for the Corporate Operations team in 2009.

Code of Conduct

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

- 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 to the board on code compliance each year.

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

The Corporation is the deposit guarantor for Saskatchewan credit unions, and the primary regulator for credit unions and SaskCentral (collectively referred to as Provincially Regulated Financial Institutions or “PRFIs”). The Corporation establishes regulatory requirements through the Standards of Sound Business Practice (the Standards) for credit unions, Prudential Standards for SaskCentral, and regulatory guidelines and directives for PRFIs. These requirements are an essential component of the Corporation’s deposit protection strategy.

New regulatory requirements, including the revision of existing ones, are generally driven by changes to legislation, and developments in the financial services industry and regulatory environment. New requirements may also become necessary due to issues or developments that necessitate providing PRFIs with information and/or clarity in the areas of corporate governance, the control environment, capital management, and financial and business practices These requirements are generally modeled on industry-based requirements and time frames such as those established by the Office of the Superintendent of Financial Institutions (OSFI) in the federal jurisdiction.

PRFIs and other key stakeholders are provided with advance notice of the Corporation’s plans to issue regulatory requirements. Communication channels may include corporate publications, meetings, and other formal and informal communication.

The Corporation monitors an institution’s implementation of regulatory requirements through its supervisory process. When an institution demonstrates elevated risk to depositors’ funds, the Corporation will conduct enforcement in a manner that aligns with its Supervisory Framework.

Three Levels Of Deposit Protection

The Corporation’s success is the result of three levels of deposit protection:

1. Credit unions must follow the Corporation’s Standards of Sound Business Practice and regulatory guidance. The Corporation monitors credit unions to ensure they operate according to the Standards, and can direct credit unions to take action on any issue that poses potential risk to depositors’ funds.
2. Credit unions are required to hold sufficient liquidity and 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 such funds in the country and 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 the Registrar of Credit Unions (the Registrar). The Standards set minimum requirements and a framework to effectively regulate credit unions.

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

The objectives of the Standards include:

- 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 regarding sound business practices to manage and control exposure to risk

The Standards emphasize the careful and practical judgment 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 liquidity and capital
- the regulatory compliance obligations of the credit union

Prudential Standards

Pursuant to *The Credit Union Central of Saskatchewan Act, 2016*, and in consultation with the Registrar, the Corporation establishes prudential standards for SaskCentral. These standards set minimum requirements and a framework to effectively regulate SaskCentral.

The objectives of the Prudential Standards are to:

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

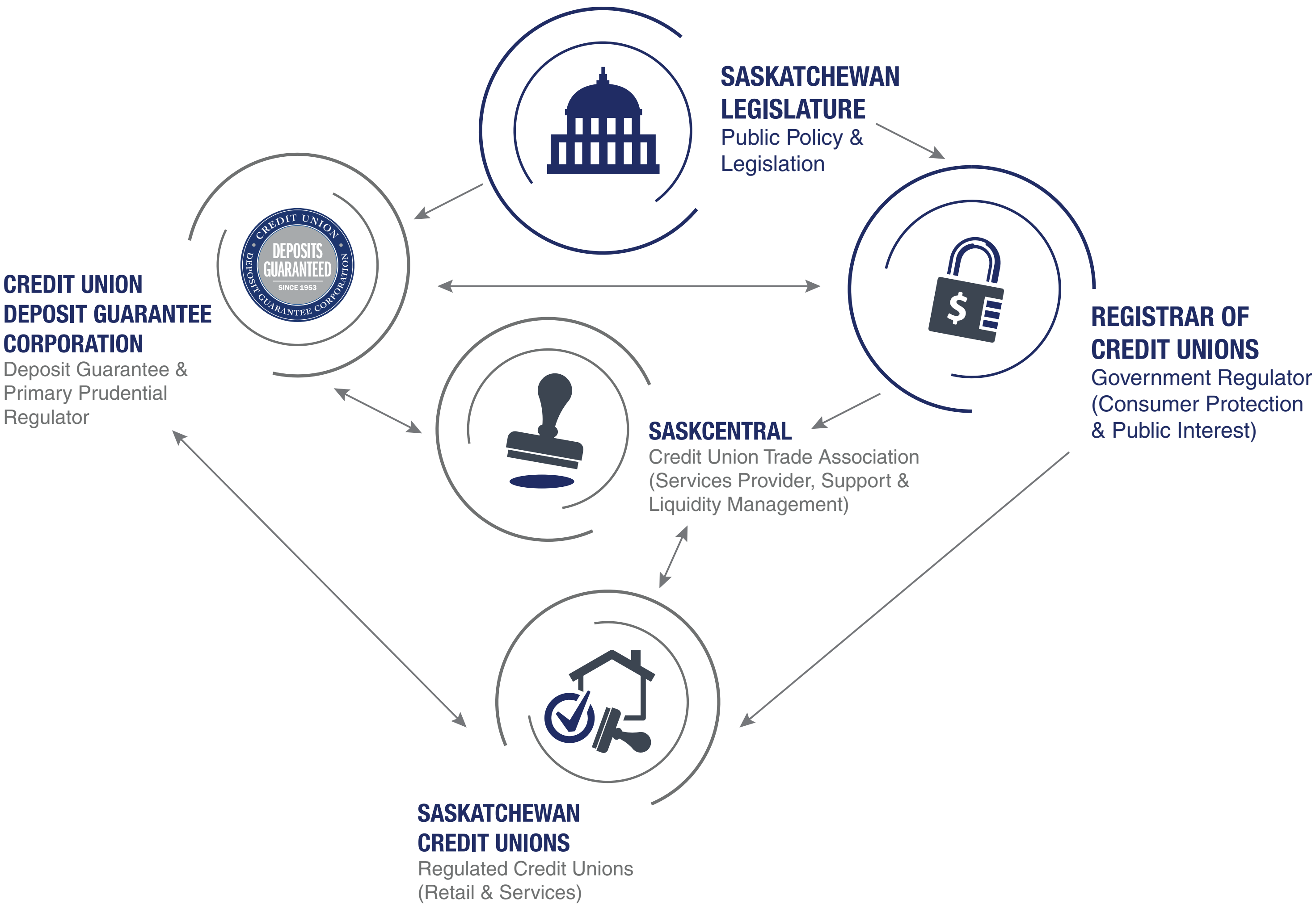
Supervision of PRFIs

In addition to establishing and communicating requirements, the Corporation:

- monitors performance of PRFIs relative to requirements
- interacts with PRFIs whose results do not meet regulatory or compliance expectations
- intervenes with PRFIs whose performance falls below requirements

LEGISLATIVE AND GOVERNANCE MODEL

Legislation governing Saskatchewan credit unions include *The Credit Union Act, 1998* (the CU Act) and *The Credit Union Regulations, 1999* (the Regulations). On January 15, 2017, the oversight of SaskCentral transitioned from federal to provincial jurisdiction with the proclamation of *The Credit Union Central of Saskatchewan Act, 2016*. PRFIs must comply with the legal requirements and obligations established in the governing legislation, as well as other relevant provincial and federal legislation. PRFIs must also comply with regulatory requirements established by the Corporation, as well as the articles, bylaws and policies set by PRFIs.



Regulatory Roles

PRFIs are regulated through a shared responsibility.

Saskatchewan Legislative Assembly establishes public policy and enacts legislation for the Saskatchewan credit union system. Through the legislation, the provincial government prescribes responsibilities for both the Corporation and the Registrar.

Credit Union Deposit Guarantee Corporation is the primary regulator of PRFIs and leads the development, monitoring and enforcement of regulatory requirements for them. The Corporation consults with the Registrar in developing regulatory requirements for PRFIs, such as Standards of Sound Business Practice for credit unions, Prudential Standards for SaskCentral, and regulatory guidelines and directives for PRFIs. The Corporation's primary focus is on deposit protection and the solvency of PRFIs. It also manages the Deposit Guarantee Fund. The Corporation is accountable to the Registrar of Credit Unions.

The Registrar of Credit Unions oversees and monitors the Corporation to ensure it is fulfilling its regulatory role. The Registrar has the final responsibility and authority for regulating PRFIs, for approving and accepting their registrations and statutory filings, and for issuing formal approvals of Prudential Standards. In overseeing and ensuring appropriate regulation of PRFIs, the Registrar's primary focus is consumer protection and the public interest. The Registrar has the overall responsibility of ensuring a safe and secure credit union system in the province. The Registrar may delegate powers and authority to the Corporation, and issue and enforce directives to the Corporation.

Saskatchewan Credit Unions are member-owned financial co-operatives, democratically controlled by their members and provide 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) is the statutory liquidity manager for the Saskatchewan credit union system. Legislation specifies that SaskCentral hold the liquidity to enable credit unions to participate in the national payments system, including clearing and settlement programs. SaskCentral is also a trade association for credit unions and provides them with a wide range of products and services.

SASKATCHEWAN CREDIT UNION SYSTEM

Saskatchewan credit unions are independent financial service co-operatives that are owned and controlled by the members they serve. They formed during the 1930s as a response to the difficult social and economic issues at that time. They have since evolved to become full-service financial institutions and rank among the leaders in the country for overall customer service excellence.

An elected board of directors governs each credit union, sets strategic direction, and oversees the work of a management team that is responsible for the daily operations. SaskCentral is the trade association for credit unions and facilitates the establishment of credit union policy, develops programs, offers services that assist credit unions in meeting their regulatory requirements, and provides programs to assist in managing their image.

Although Saskatchewan credit unions have grown to meet changing needs, they maintain a strong commitment to co-operative principles and to those they serve. Credit unions continue to share their success with their members and communities, and every year they commit millions of dollars and countless volunteer hours to causes, organizations and events. In 2018 credit unions rewarded member loyalty by returning $10.5 million in patronage allocations and dividends to members.

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

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

Pursuant to *The Credit Union Central of Saskatchewan Act, 2016* the Corporation has supervisory and regulatory powers and responsibilities regarding SaskCentral. The Registrar provides oversight of the Corporation.

$10.5 MILLION

in patronage allocations and dividends returned to Saskatchewan credit union members in 2018

Canadian credit unions now have the option to be federally incorporated and regulated and there is currently one credit union in the province that is pursuing that option.

Despite the pressures of increased complexity and competitiveness in the financial services sector, Saskatchewan credit unions remain among the most stable financial institutions in the country. Credit unions have maintained their financial integrity by carefully managing operating expenses and controlling their balance sheets.

All credit unions 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 increased collaboration.

There are now 44 credit unions as of December 31, 2018, and they range in asset size from $19.5 million to nearly $6.2 billion.

SYSTEM PERFORMANCE

Risk Profile of Provincially Regulated Financial Institutions (PRFIs)

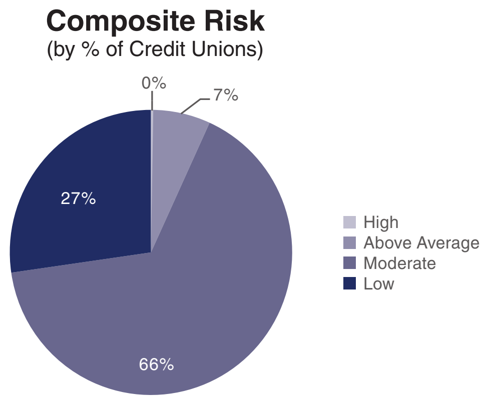
The Corporation uses industry best practices to review and assess the financial condition, safety and soundness of PRFIs. This approach evaluates credit unions' exposure to risks, and examines how they effectively manage and mitigate those risks.

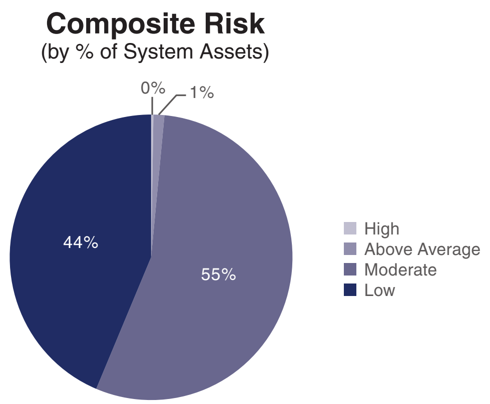
All PRFIs are subject to the Corporation's regulatory oversight, which includes on-going monitoring of scheduled and requested regulatory reporting requirements. This process includes quarterly financial monitoring and reviews of key planning documents, board meetings, member disclosures, as well as audit and risk reports. The resulting composite risk rating is an overall assessment of safety and soundness for the credit union system. The Corporation's model includes four levels of composite risk: low, moderate, above average, and high.

In 2018, the Corporation issued 50 supervisory letters confirming the risk profile and stage rating of all PFRIs. The Corporation also proactively interacted with institutions experiencing elevated levels of risk based on financial performance trends and progress in addressing key deficiencies to ensure that the risk profile of the institution remains low to moderate.

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

- assessing policies and practices against new and existing regulatory policy (e.g. legislation, standards and guidelines) and ensuring compliance
- 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
- embedding risk management in strategic planning and daily decision making
- ensuring oversight functions (i.e. audit, compliance, risk management and financial analysis) have and fulfill a mandate that establishes the independence and authority required to express an opinion and follow up with management on action taken in response





Financial Performance

Saskatchewan credit unions demonstrated exceptional performance in 2018 with income, efficiency, capital and liquidity ratios that improved to record year-end levels. These are all indicators of strength, stability, good management and ability to operate in a highly competitive marketplace while retaining cooperative principles.

PROFITABILITY – Net income was $162 million in 2018 (2017 – $130 million), for a return on average assets of 0.70% (2017 – 0.59%). The improvement in income was primarily due to continued cost management efforts and higher revenues that included a $23 million special dividend from SaskCentral. The dividend was the result of a tax recovery realized from the consolidation of Concentra Bank in 2017. As such, operating efficiency improved to 66.4% (2017 – 70.3%).

GROWTH – Assets increased by 6.0% in 2018 (2017 – 3.9%) to $23.8 billion. The majority of this growth was from loans which increased by 5.7% (2017 – 5.0%) to $19.2 billion. Loans were primarily funded with deposits which grew by 6.3% (2017 – 3.4%) to $20.3 billion fully guaranteed by the Corporation.

CAPITAL – With record earnings and moderate growth, total eligible capital as a percentage of risk-weighted assets increased to 13.9% (2017 – 13.7%). This is well above the minimum regulatory standard of 8%, and an additional regulatory capital conservation buffer of 2.5%. Effective January 1, 2019, Saskatchewan's two largest credit unions are required to hold an additional capital buffer of 1.0%. At year-end 2018, the leverage ratio was 8.5% (2017 – 8.3%) compared to the minimum regulatory standard of 5%.

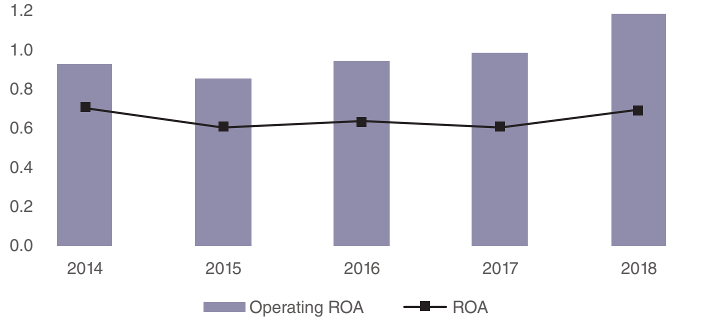
LIQUIDITY – Liquidity Standards require credit unions to maintain a Liquidity Coverage Ratio (LCR) of at least 90%. The LCR is based on the level of high quality liquid assets available for net cash outflows over 30 days under a prescribed stress scenario. At year-end, credit unions well exceeded the minimum LCR requirement, with a result of 212.2% (2017 – 150.6%). Effective January 1, 2019, the minimum standard increases to 100%.

OTHER FINANCIAL INDICATORS – Commercial loan delinquencies increased in 2018, but were consistent with the current economic environment and very manageable since credit unions are positioned with strong levels of capital.

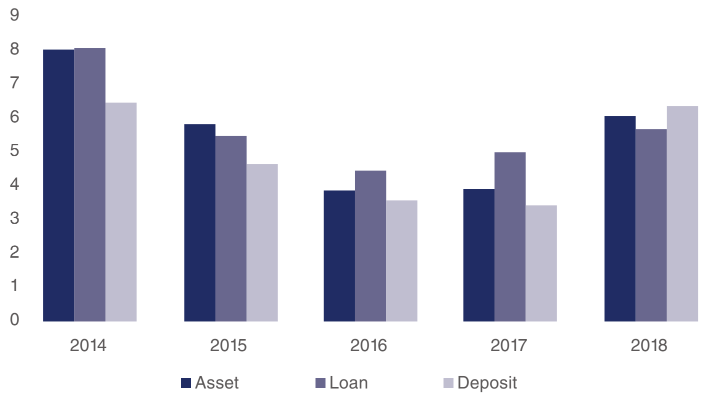
Assets increased 6.0% to

$23.8 BILLION

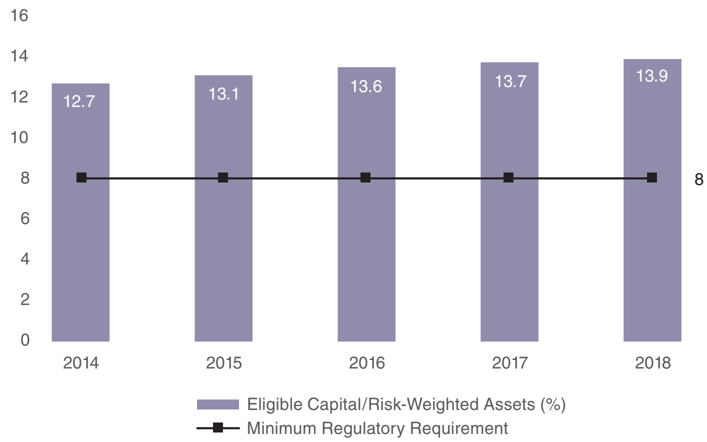
Operating Return on Average Assets and Return on Average Assets (%)



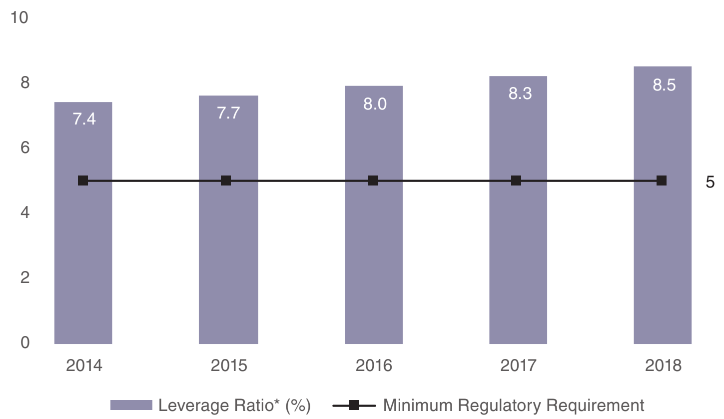
Growth (%)



Capital Adequacy – Risk-Weighted Capital



Capital Adequacy – Leverage Ratio

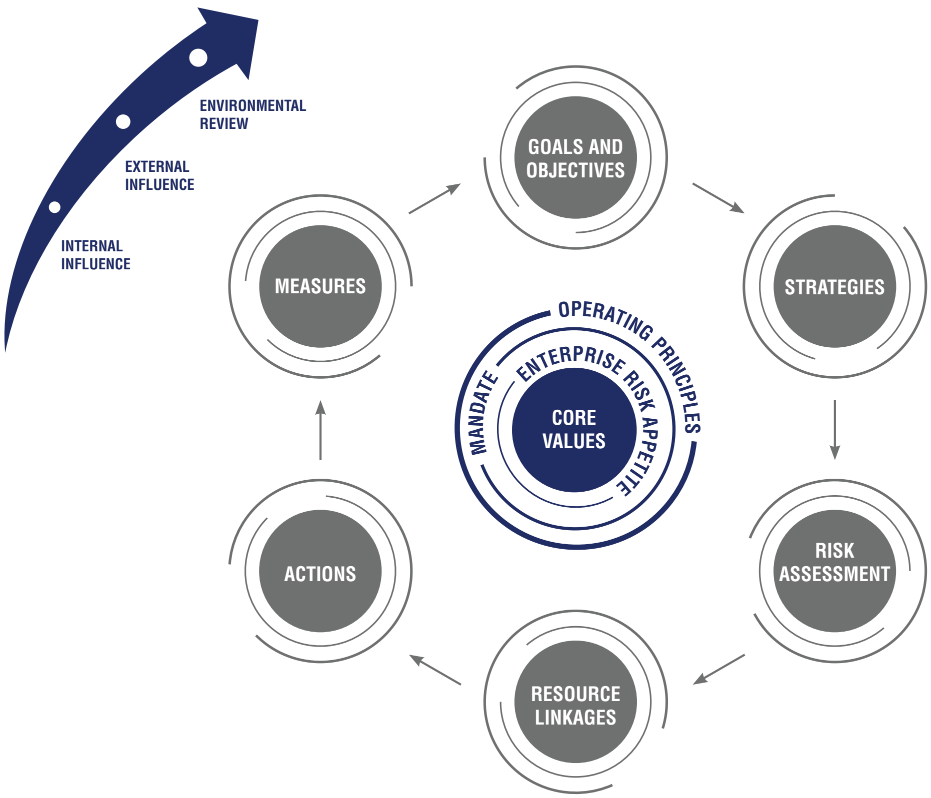


* Leverage is based on eligible capital relative to total assets and certain off-balance sheet items.

MANAGEMENT DISCUSSION AND ANALYSIS

Strategic Focus Areas

The Corporation protects deposits while promoting the strength and stability of the credit union system. During its annual planning process, the Corporation's board and executive management consider the environment, risks and performance measurements to establish strategic focus areas.



In 2018 the board determined that particular attention should continue with monitoring environmental trends and responding to legislative and regulatory developments, and that stakeholder consultation and engagement would need to continue as part of the Corporation's responses to changes in the environment. As well, due to the Corporation's new role in overseeing SaskCentral, the Corporation would need to ensure that are no real or perceived conflicts of interest due to these added responsibilities.

As such, the following strategic priorities were confirmed for the Corporation:

- Operational Review
- Responding to credit union transitioning to the federal regime
- Regulatory developments including but not limited to:
  - Bank of Canada Emergency Lending Assistance
  - Enhancements to the crisis management framework
  - Liquidity stress modelling
  - Designation of provincially regulated institutions as Systemically Important Financial Institutions and their requirements.

Although the Corporation focusses on these priorities, several specific initiatives also receive attention and resources. This year's strategic and operating plans were built on previous progress, and focused on areas requiring attention within the corporate, regulatory and business environments.

Deposit Protection and Regulatory Excellence

The Corporation strives for excellence in regulation and deposit protection by employing industry best practices. It provides responsible regulatory administration by balancing the need for effective regulation with the realities of the competitive marketplace.

The Corporation's expectations of credit unions reflect the broader regulatory environment. As the principal regulator of credit unions in the province, the Corporation continues to hold credit unions to standards that are comparable to federally-regulated institutions in support of a continued movement towards prudential regulation, self-determination and self-regulation. Since the Saskatchewan model is based on regulatory best practice, the Corporation monitors and responds to new and emerging developments.

The Corporation champions an effective regulatory framework by providing leadership beyond provincial boundaries in order to facilitate positive change and manage jurisdictional issues. Through strong working relationships with regulators in other jurisdictions and the Registrar, the Corporation strives to maintain a regime of effective regulation with minimal burden to credit unions.

The Corporation is the primary regulator of SaskCentral, leads the development, monitoring and enforcement of regulatory requirements, and consults with the Registrar in developing regulatory requirements, such as Prudential Standards for SaskCentral.

Financial strength continues to be paramount to the mandate of the Corporation as we maintain a strong guarantee fund that reflects best practices in deposit protection. Investments in preventative programs and initiatives are key to our ability to control and manage risk to the Deposit Guarantee Fund.

Performance and measures

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

Objectives	Targets and Thresholds	2018 Performance
Instill confidence in the safety and security of Saskatchewan credit unions	Credit union depositor confidence is targeted at 90% with a threshold of 80%	94%
Manage risk to the Deposit Guarantee Fund Provide fair and consistent regulation	Regulatory fairness, as measured through credit union survey results, is targeted at 90% with a threshold of 80%	97%

GOAL: Corporate financial strength

Objectives	Targets and Thresholds	2018 Performance
Meet deposit protection financial obligations Demonstrate fiscal responsibility	Deposit Guarantee Fund range is 1.4% to 1.6% of consolidated system deposits with a threshold of 1.5%.	1.58%
	Overall corporate operational budgets do not exceed a 5% negative variance	18% positive variance

KEY INITIATIVES

Bank of Canada Emergency Lending Assistance – The Corporation continued to evolve its deposit protection regime in response to federal and regulatory developments. Efforts included strengthening the crisis management framework with enhanced liquidity stress modelling, and finalizing regulatory requirements for Provincially Systemic Important Financial Institutions (P-SIFIs). Institutions designated as P-SIFIs include SaskCentral, Conexus Credit Union and Affinity Credit Union.

The Corporation continued to strengthen its relationship with the Bank of Canada (the Bank), and provided information under an MOU to support the Bank in assessing the Corporation's request to pursue emergency lending assistance (ELA). Under the terms of the MOU, the Corporation had its first face-to-face annual meeting with the Bank to facilitate their understanding of the Saskatchewan credit union system in support of our request for ELA. The feedback from the Bank was positive, signalling that the Corporation may proceed with engaging government to determine the province's appetite for signing an indemnity agreement (as a necessary condition of ELA).

Regulatory Policy Enhancements – The Corporation concluded the final deliverable of its SaskCentral Legislative and Regulatory Framework initiative. In April 2018 the Corporation and the Registrar finalized a Memorandum of Understanding (MOU) to replace a long-standing regulatory roles agreement and clarify regulatory roles and responsibilities of each party in the regulation of Saskatchewan credit unions and SaskCentral. The new MOU includes the Corporation's mandate as prescribed by the Registrar, public policy objectives, a framework to formalize the Corporation's accountability to the Registrar, and documented roles and responsibilities for both the Corporation and the Registrar for crisis management.

Regulation of Payments and Centrals – Through the Credit Union Prudential Supervisors Association (CUPSA), the Corporation is actively monitoring progress on necessary changes to the structure and governance of the Group Clearer, and payments and settlement activity.

Federal Credit Unions – In 2018 the Corporation continued to work with the Registrar on Innovation Credit Union's application to exit the provincial jurisdiction and become a federal credit union. The Corporation has provided its approval, though a number of steps must be completed, including approvals from the Registrar and the necessary federal authorities.

94% Credit Union deposit confidence

The Corporation also completed an independent assessment of the longer-term implications to the credit union system and the current provincial regulatory framework resulting from credit unions moving to the federal jurisdiction. The assessment concluded that the current approach to regulation and supervision is sustainable in the long-term, and that the Corporation consider legislative changes, including those to provide certainty that a credit union leaving the Saskatchewan system would not have a claim on the Deposit Guarantee Fund.

Prevention

The Corporation's key risk management strategy is prevention and investments are made in preventive services to enhance the ability of PRFIs to operate in a sound and prudent manner. The Corporation's objective is to encourage PRFIs to act proactively, minimizing the need for the Corporation to react through intervention or payment of claims on the Deposit Guarantee Fund (the Fund). Strong, stable institutions facilitate the system's ability to operate effectively and instill depositor confidence.

As part of this focus, the Corporation provides leadership by actively sharing its perspective on the performance of PRFIs, at both the individual and system levels, in relation to the broader industry. These efforts are targeted at boards of PRFIs to equip them with information to support informed choices about their future.

Performance and measures

GOAL: Credit union strength and stability

Objectives	Targets and Thresholds	2018 Performance
Invest in programs that reduce risk to the Deposit Guarantee Fund Promote sound governance and strategic management in credit unions Foster positive working relationships	Regulatory fairness, as measured through credit union survey results, is targeted at 90% with a threshold of 80%	97%
	Regulatory responsiveness to PRFIs is targeted at 90% with a threshold of 80%.	98%
	The aggregate composite risk rating of the credit union system is = to or < than 2.0 (Mid-Moderate)	1.56%
	Total eligible capital of the system is to exceed regulatory limits, including buffers and must be = to or > 10.5%	13.92%

KEY INITIATIVES

As part of its operational activities, the Corporation hosted a meeting for all PRFIs to focus on the Corporation's initiatives regarding crisis management and federal unions, an analysis of the Fund's performance, and an overview of the Corporation's plans and priorities. The meeting also provided a forum for participants to provide feedback on issues affecting the credit union system.

Corporate Excellence

The Corporation strives for excellence in all business aspects including effective strategic and operational planning processes. Clear objectives and strategies guide day-to-day activities. The communications strategy facilitates openness and ongoing dialogue with stakeholders, and balances those efforts with conscientious treatment of confidential information entrusted to the Corporation.

The Corporation maintains a sound governance framework, including policies that guide decisions, and articulate the authority and accountability of board, management and staff in achieving corporate objectives. An Enterprise Risk Management framework fosters sound decision-making through the identification and assessment of risks to both the credit union system and the Corporation. Risk management processes add value to business strategies, identify preventive programming opportunities, and support sound management of the Fund.

The Corporation encourages a constructive work environment that recognizes the contribution individuals make to organizational goals, and promotes teamwork and collaboration. This culture encourages leadership at all levels and supports employees to do their best.

Effective deposit protection requires a skilled, professional team that understands the environment and the industry, has the ability to demonstrate leadership with stakeholders, and can manage change in complex situations. The Corporation continues to invest in the development of intellectual capacity, as the skills, abilities and knowledge of people are what has made the Corporation successful in the past and will continue to make the organization successful into the future.

Performance and measures

GOAL: Sound governance and business practices

Objectives	Targets and Thresholds	2018 Performance
Demonstrate best practices in corporate governance and strategic management	Board governance self-assessment results are targeted at 85% with a threshold of 80%.	88%
Fulfill responsibilities professionally and with the utmost integrity	Audit committee governance self-assessment results are targeted at 85% with a threshold of 80%.	93%
Foster a constructive work environment	Organizational Effectiveness Inventory surveys results indicate a staff satisfaction rating score of 80% with a threshold of 75%.	90%
	Organizational Culture Inventory will reflect an average of constructive styles > or = to the 50th percentile.	Percentile score of 86%

KEY INITIATIVES

Operational Review – Pursuant to *The Credit Union Central of Saskatchewan Act, 2016*, the Corporation has been given supervisory and regulatory powers and responsibilities with respect to SaskCentral. To ensure there are no real or perceived conflicts of interest, and to obtain further independence, the Corporation undertook a comprehensive review of the support services provided by SaskCentral and those organizations in which it has an ownership stake. The Corporation proceeded with the implementation of a support services transition plan that includes the development of in-house capacity, making arrangements with alternate service providers and coordinating efforts to minimize disruption.

Supervisory Processes Technology Changes – The Corporation implemented an enhanced supervisory framework in 2017. Required changes to the Corporation's technology applications were identified, including the automation of the inherent risk and supervisory practice working papers. The activities undertaken this year included the technical development required to automate the working papers and related changes to the risk matrix application.

IFRS 9 – Technology Changes – The Corporation continues to research and respond to regulatory changes at the federal and international levels, including changes related to IFRS 9. Credit unions were required this year to comply with the regulatory reporting requirements of IFRS 9. Technology changes to the Financial Monitoring System are required to support IFRS 9 reporting.

Financial Monitoring System (FMS) Submission – The objective of this initiative is to establish a new method for credit unions to submit data to the Corporation in support of regulatory monitoring requirements. Technical developments were completed this year and the new method was piloted in the fall. It is expected that all credit unions will use the new submission method for the Q1 2019 reporting cycle.

Operational Activities

The Corporation's operations contain the following divisions: Regulatory Policy and Prevention, Risk-Based Supervision, and Corporate Operations.

Regulatory Policy and Prevention

This division ensures an effective and responsible framework for regulating PRFIs by developing regulatory policy, executing the preventive strategy and overseeing the Deposit Guarantee Fund (the Fund). It maintains relevant Standards and develops supplemental regulatory guidance and directives for PRFIs.

Staff regularly interact with PRFIs on various issues to provide leaders with a better understanding of the Corporation's regulatory expectations. These efforts are supported by preventive programming such as system meetings and educational sessions.

This division is responsible for managing the Fund, which includes providing leadership and oversight, and developing strategy and policies. This division allocates assets, appoints a portfolio manager and monitors fund performance. Under the direction of 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

This division chairs the asset liability committee that determines the investment strategy, performance and policy compliance, and reports to the board. Staff reviews the Fund's investment policy and practices at least once per year and any changes to Fund policy are approved by the board.

Risk-Based Supervision

This division is responsible for the monitoring, intervention and regulatory approvals for PRFIs. This ensures both thorough and effective assessment of PRFIs' performance, and protects the Fund by proactively addressing elevated risk and performance deficiencies.

The Corporation monitors the financial performance of credit unions and their adherence to regulatory requirements to ensure the safety of member deposits. When issues or deficiencies are identified, the Corporation will work with institutions to ensure they are resolved in a prudent and timely manner. In some cases, the Corporation will provide financial assistance to facilitate their recovery or resolution.

The division assesses PFRIs' performance and risk management to ensure they meet regulatory expectations and operate with effective controls. Supervisory reviews are supplemented by ongoing engagement with management and board. The division reviews quarterly financial reports, annual budgets and external reports. In some cases the division may request monthly board reports and mid-year forecasts.

This oversight allows staff to develop a composite risk rating for each PRFI as well as a provincial aggregate for Saskatchewan credit unions. The division also assesses requests from PRFIs to engage in new lines of business, for regulatory policy exemptions, and to enter into certain types of transactions.

Corporate Operations

This division is responsible for:

ACCOUNTING AND REPORTING

The team manages accounting and reporting processes, and the relationship with the accounting services supplier. 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.

AUDIT AND COMPLIANCE

Auditing services provide assurance that the Corporation's risk management, governance and internal control processes operate effectively. Management works with auditors to identify and assess risks, which 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 serves as the liaison with the auditors.

BUSINESS PROCESS SUPPORT AND INFORMATION TECHNOLOGY

The Business Process Support Services (BPSS) team develops and maintains the corporate systems that improve the Corporation's effectiveness and efficiency, including information management, reporting and office management systems.

BPSS manages technology operational strategies, policies and practices that streamline corporate business process, support internal and external stakeholders, and contribute to the Corporation's goals and objectives. BPSS also manages relationships with vendors that support information systems and technology requirements. 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 are regularly reviewed and updated to ensure recovery from an unforeseen, significant business disruption.

COMMUNICATION

The team is responsible for branding standards, and for producing and maintaining communication tools, such as the website and printed publications.

ENTERPRISE RISK MANAGEMENT (ERM)

ERM outlines the Corporation's principal risks, risk appetite, risk tolerances and the actions taken to monitor and manage risks. An annual ERM report describes the risk assessment and includes a consolidated risk map, overviews of each principal risk with a status summary, mitigation actions and the potential impact. A mid-year review is also conducted as part of the monitoring process with adjustments made as required.

GOVERNANCE

The decisions, authority and accountability of the board, management and staff are guided by a governance framework that includes policies and practices. Board and audit committee self-assessments identify opportunities for director development and enhanced governance practices.

HUMAN RESOURCES

Human resource policies and practices, benefits and compensation are regularly reviewed. Regular surveys and team building events help develop an engaged, enthusiastic workforce. The Corporation supports employees pursuing advanced educational qualifications, including degree and professional designations.

PERFORMANCE MEASUREMENT, PLANNING AND BUDGETING

The Corporation's board and management identify key strategic focus areas through the ERM report, corporate performance measurements and environmental scans. This annual planning develops corporate goals, objectives and key initiatives that are measured and reported at each board meeting.

SUPPORT SERVICES RELATIONSHIPS

The division contracts for and manages various support services including:

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

Enterprise Risk Management

The Corporation is exposed to various risks during regular business activities and the management and board determine how much risk is acceptable. Enterprise risk management (ERM) is used to identify, assess and mitigate risks, which helps form the goals, objectives and strategies that guide the organization's strategic and business plans, and provides direction for its priorities and resource allocation. The ERM framework outlines the Corporation's principal risks, risk appetite and risk tolerances, and includes actions taken to effectively manage and monitor risks. Management reviews the current environment and updates the risk assessment twice per year. The board uses the year-end risk assessment as the basis for strategic planning every second year.

Enterprise Level Risk Appetite Statements

The following enterprise level risk appetite statements outline the level of risk the Corporation is willing to assume:

- 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 a guarantee fund at a level sufficient to instill confidence in credit union depositors and other stakeholders.
- We avoid actions that would damage the Corporation's 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.

Every year the Corporation reviews twenty principal risks that are divided into five categories: Deposit Guarantee/Solvency, Strategic, Regulatory, Operational, and Financial.

Risk category	Definition	Direction of Risk
Deposit Guarantee/ Solvency Risk	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**

2018 Risk Assessment

Despite a sluggish economic outlook for Saskatchewan, resulting in a slight increase in credit union loan delinquencies, the 2018 risk assessment demonstrates stability within the economic environment, provincial business climate and credit union system. By remaining focused, proactively monitoring economic conditions with preventative measures and maintaining constructive relationships, the Corporation is able to continue to maintain and invest in programs that continually reduce risk to the Deposit Guarantee Fund. This year the Corporation has seen no significant movement in any of the risk ratings, except for regulatory risk which decreased with the implementation of initiatives to strengthen independence and objectivity.

Financial Summary

Deposit Guarantee Fund

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

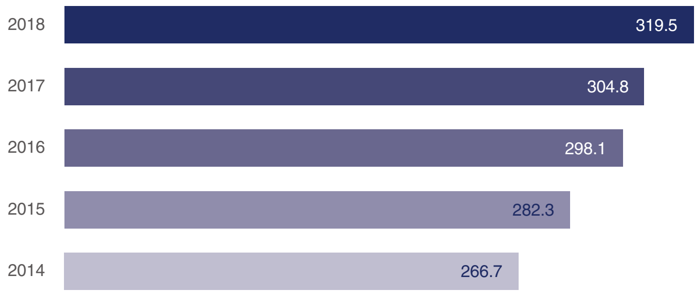
The Corporation offers a full guarantee on deposits held in Saskatchewan credit unions through three levels of deposit protection:

- a regulatory framework that ensures credit unions adhere to the Standards of Sound Business Practice and regulatory guidance provided by the Corporation
- strong levels of capital and liquidity that support operations including business risks. The reserves of Saskatchewan credit unions are among the strongest in Canada.
- the Fund is the last level of deposit protection

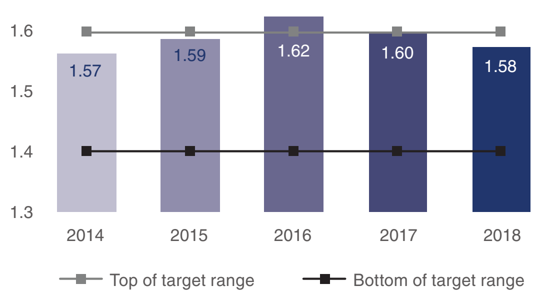
The board-approved target range for the Fund is 1.4% to 1.6% of total deposits held by Saskatchewan credit unions, plus the amount of any deficiencies in credit unions' regulatory capital. The strategic intent of the target range is to instill confidence, accommodate all anticipated risks to the Fund during normal business cycles, and provide protection during difficult periods.

At December 31, 2018, the balance of the Fund was $319.5 million (2017 – $304.8 million), representing 1.58% of total credit union deposits (2017 – 1.60%). The fund is near the top of the Corporation's target range.

Guarantee Fund Balance
(in $ millions)



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



The Deposit Guarantee Fund balance as of December 31, 2018:

$319.5 MILLION

INCOME AND ASSESSMENTS

The assessment charged to credit unions in 2018 was 0.08%, which was the same as the previous year.

The Fund also generates revenue due to its investments. At December 31, 2018, the overall yield was 1.95% (2017 – 1.72%). The increase from last year is reflective of the improvements in interest rates and returns offered on high quality, liquid and low risk investments.

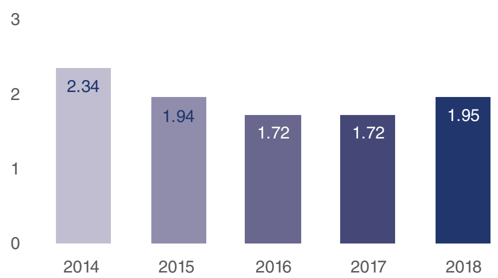
Income and Assessments

In thousands ($)	2014	2015	2016	2017	2018
Credit union assessment	14,371	15,306	16,002	14,741	15,242
SaskCentral assessment	-	-	-	66	80
Interest from investments	6,344	5,890	5,338	5,194	5,636
Recovery from unclaimed balances	38	-	-	-	-
Total	**20,753**	**21,196**	**21,340**	**20,001**	**20,958**

Operating Expenses

In thousands ($)	2014	2015	2016	2017	2018
Financial assistance	107	20	-	7,250	200
Registrar's fees	-	-	-	300	300
Operations	5,356	5,520	5,600	5,799	5,760
Total	**5,463**	**5,540**	**5,600**	**13,349**	**6,260**

Yield on Investments (%)



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.

Brent Schellenberg
Chief Executive Officer

Linda Jacob
Vice-President, Corporate Operations

Deloitte.

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Independent Auditor's Report

To the Board of Directors
Credit Union Deposit Guarantee Corporation

Opinion

We have audited the financial statements of Credit Union Deposit Guarantee Corporation (the "Company"), which comprise the statement of financial position as at December 31, 2018, and the statements of operations, other comprehensive income and fund balance and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

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

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Annual Report prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

Deloitte LLP

Chartered Professional Accountants

Regina, Saskatchewan
March 8, 2019

Credit Union Deposit Guarantee Corporation

2018 FINANCIAL STATEMENTS

As at December 31 (in thousands)

Statement of Financial Position

	2018 $	2017 $
Assets		
Cash and cash equivalents *[note 4]*	**1,135**	906
Prepaid expenses	**20**	-
Income tax receivable *[note 7]*	**54**	115
Investments, net of impairment *[note 5, 8, 11 and 13]*	**319,485**	304,772
Equipment	**27**	44
	320,721	305,837
Liabilities		
Accounts payable *[note 6]*	**1,177**	1,016
Fund balance		
Deposit Guarantee Fund *[note 12]*	**319,544**	304,821
	320,721	305,837

See accompanying notes

On behalf of the Board of Directors:

Daniel Ash

Director

Robert Watt

Director

Credit Union Deposit Guarantee Corporation

2018 FINANCIAL STATEMENTS

For the year ended December 31 (in thousands)

Statement Of Operations, Other Comprehensive Income and Fund Balance

	2018 $	2017 $
Revenue		
Credit union assessment	**15,242**	14,741
Credit Union Central of Saskatchewan assessment	**80**	66
Interest from investments	**5,636**	5,194
	20,958	20,001
Expenses		
Financial assistance	**200**	7,250
Registrar's fees	**300**	300
Operational services *[note 9]*	**5,760**	5,799
	6,260	13,349
Income before provision for credit losses and income taxes	**14,698**	6,652
Recovery of impairment on financial assets *[note 5 and 11]*	**(11)**	-
Income tax recovery *[note 7]*	**(49)**	(115)
Net income and total comprehensive income	**14,758**	6,767
Fund balance, beginning of year	**304,821**	298,054
Opening fund balance adjustment – IFRS 9 *[note 2(e)]*	**(35)**	-
Adjusted fund balance, beginning of year	**304,786**	298,054
Net income and total comprehensive income	**14,758**	6,767
Fund balance, end of year	**319,544**	304,821

See accompanying notes

2018 FINANCIAL STATEMENTS

For the year ended December 31 (in thousands)

Statement of Cash Flows

	2018 $	2017 $
Cash flows from operating activities		
Net income and total comprehensive income	**14,758**	6,767
Adjustments for:		
Amortization of investment premiums	**2,293**	2,819
Depreciation of equipment	**24**	11
Interest from investments	**(7,923)**	(8,010)
Impairment on financial assets	**(11)**	-
Income tax recovery	**(49)**	(115)
Changes in non-cash working capital:		
Prepaid expenses	**(20)**	-
Accounts payable	**161**	171
Interest received	**8,056**	8,039
Income tax refund	**115**	127
Cash flows from operating activities	**17,404**	9,809
Cash flows used in investing activities		
Purchase of investments	**(116,217)**	(134,659)
Proceeds from redemption of investments	**99,049**	124,888
Purchase of equipment	**(7)**	(55)
Cash flows used in investing activities	**(17,175)**	(9,826)
Net increase (decrease) in cash and cash equivalents	**229**	(17)
Cash and cash equivalents, beginning of year	**906**	923
Cash and cash equivalents, end of year	**1,135**	906

See accompanying notes

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31 (in thousands)

1. Nature of Operations

Credit Union Deposit Guarantee Corporation (the Corporation) is the deposit guarantor for Saskatchewan credit unions, and the primary regulator for credit unions and Credit Union Central of Saskatchewan (SaskCentral), together, Provincially Regulated Financial Institutions or "PRFIs", as directed in provincial legislation – *The Credit Union Act, 1998* (the CU Act) and *The Credit Union Central of Saskatchewan Act, 2016* (the CUCS Act). The Corporation instills confidence in the province's credit union system with a mandate of:

- guaranteeing the repayment of deposits in Saskatchewan credit unions;
- establishing regulatory standards and ensuring PRFIs are performing to those standards;
- promoting responsible governance by PRFIs, and contributing to the strength and stability of the credit union system;
- directing PRFIs to take remedial action on material deficiencies, and any issue that may put depositors' funds at risk; and
- maintaining and managing a guarantee fund in a sound and prudent manner.

The Corporation is a body corporate established and continued by Section 442 of the CU Act. It has existed since July 1, 1952 and commenced operations in 1953. 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, an annual assessment collected from credit unions and an annual regulatory assessment charged to SaskCentral. The Corporation has established a fund target range based on credit union system deposits plus individual credit union capital deficiencies. The annual assessment 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 CU Act. 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, 2018 were authorized for issue by the board on March 8, 2019.

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.

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 use of judgments and estimates is discussed in Note 3(d) provision for financial assistance.

e) Change in accounting policies

Except for the changes below, the Corporation has consistently applied the accounting policies as set out in Note 3 to all periods presented in these financial statements.

IFRS 9 Financial Instruments

The Corporation adopted IFRS 9 – Financial Instruments (IFRS 9) on January 1, 2018. The requirements of IFRS 9 represent a significant change from IAS 39 – Financial Instruments: Recognition and Measurement (IAS 39). IFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities and impairment for financial assets. Details of these new requirements as well as their impact to the Corporation are discussed below.

CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

IMPAIRMENT OF FINANCIAL ASSETS

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognized earlier than under IAS 39. For an explanation of how the Corporation applies the impairment requirements of IFRS 9, see Note 3(a)(vi).

TRANSITION

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in the fund balance as at January 1, 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- An assessment regarding the business model within which a financial asset is held has been made on the basis of the facts and circumstances that existed at the date of initial application.

Classification and measurement of financial assets and financial liabilities on the date of initial application of IFRS 9

The Corporation's accounting policies on the classification and measurement of financial instruments under IFRS 9 are set out in Note 3(a)(i). The application of these policies did not result in any significant changes for the Corporation.

Year ended December 31 (in thousands)

2. Basis Of Preparation And Statement Of Compliance (continued)

e) Change in accounting policies (continued)

IFRS 9 Financial Instruments (continued)

TRANSITION (continued)

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts before tax under IFRS 9 on transition to IFRS 9 at transition date, January 1, 2018.

	IAS 39 carrying amount December 31, 2017 $	Remeasurement $	IFRS 9 carrying amount January 1, 2018 $
Financial assets			
Amortized cost			
Cash and cash equivalents	**906**	**-**	**906**
Investments	**304,772**	**(40)**	**304,732**
Total amortized cost	**305,678**	**(40)**	**305,638**
Financial liabilities			
Amortized cost			
Accounts payable	**1,016**	**-**	**1,016**
Total amortized cost	**1,016**	**-**	**1,016**

Recognition of impairment on financial assets

The following table provides the impact of the transition to IFRS 9 on the fund balance. This impact consists of the recognition of impairment on financial assets.

	$
Deposit Guarantee Fund	
Fund balance, beginning of year (December 31, 2017)	**304,821**
Recognition of impairment of financial assets	**(40)**
Deferred income tax related to impairment of financial assets	**5**
Opening fund balance adjustment – IFRS 9	**(35)**
Adjusted fund balance, beginning of year (January 1, 2018)	**304,786**

IFRS 15 Revenue from Contracts with Customers

On January 1, 2018, the Corporation adopted IFRS 15 – Revenue from Contracts with Customers (IFRS 15). IFRS 15 provides a single revenue recognition standard to align the financial reporting of revenue from contracts with customers and related costs. It replaces IAS 18 – Revenue, IAS 11 – Construction Contracts and related interpretations.

Under IFRS 15, the Corporation will recognize revenue when it transfers goods or services to a customer in the amount of consideration it expects to receive from the customer. The revenue arising from financial instruments is not within scope of IFRS 15. There is no impact to the financial statements as a result of this new standard.

Year ended December 31 (in thousands)

NOTES TO THE FINANCIAL STATEMENTS

3. Significant Accounting Policies

a) Financial instruments

i) Financial assets and financial liabilities

RECOGNITION AND MEASUREMENT

Financial assets and financial liabilities are initially recognized at their fair value at acquisition. Accounts payable are recognized on the date on which they are originated. Investments are recognized on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument.

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Corporation's financial assets and financial liabilities as at January 1, 2018.

	Note	IAS 39 classification	IFRS 9 classification	IAS 39 carrying amount $	IFRS 9 carrying amount $
Financial assets					
Cash and cash equivalents	4	Loans and receivables	Amortized cost	**906**	**906**
Investments	5	Held to maturity	Amortized cost	**304,772**	**304,732**
Total financial assets				**305,678**	**305,638**
Financial liabilities					
Accounts payable	6	Other liabilities	Amortized cost	**1,016**	**1,016**
Total financial liabilities				**1,016**	**1,016**

CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets are classified as measured at amortized cost, fair value through other comprehensive income (FVTOCI) or fair value through profit or loss (FVTPL). Financial liabilities are classified as measured at amortized cost or FVTPL.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

BUSINESS MODEL ASSESSMENT

Business model assessment involves determining whether financial assets are managed in order to generate cash flows from collection of contractual cash flows, from the sale of financial assets, or both. The Corporation assesses business models at a portfolio level reflective of how groups of assets are managed together to achieve a particular objective. For the assessment of business models, the Corporation takes into consideration the factors such as performance of assets in the portfolio, risks that affect the performance of assets, management compensation for those managing the assets and the frequency, reason for sales, and volume of sales in prior periods and expectations about future sales activity.

3. Significant Accounting Policies (continued)

a) Financial instruments (continued)

i) Financial assets and financial liabilities (continued)

CASH FLOW CHARACTERISTICS ASSESSMENT

The contractual cash flow characteristics assessment involves assessing the contractual features of an instrument to determine if they give rise to cash flows that are consistent with a basic lending arrangement. Contractual cash flows are consistent with a basic lending arrangement if they represent cash flows that are SPPI on the principal amount outstanding.

'Principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and the credit risk associated with the principal amount outstanding for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In performing this assessment, the Corporation takes into consideration contractual features that could change the amount or timing of contractual cash flows, such that the cash flows are no longer consistent with a basic lending arrangement. If the Corporation identifies any contractual features that could modify the cash flows of the instrument such that they are no longer consistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

DEBT INSTRUMENTS MEASURED AT AMORTIZED COST

Debt instruments are measured at amortized cost if they are held within a business model whose objective is to hold for collection of contractual cash flows where those cash flows represent SPPI. After initial measurement, debt instruments in this category are carried at amortized cost using the effective interest rate method. Amortized cost is calculated taking into account any discount or premium on acquisition, transaction costs and fees that are an integral part of the effective interest rate.

RECLASSIFICATIONS

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Corporation changes its business model for managing financial assets. There were no changes to the Corporation's business model for the year ended December 31, 2018.

ii) 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 instrument to:

- The gross carrying amount of the financial asset; or
- The amortized cost of the financial liability.

Interest from investments presented in the statement of operations, other comprehensive income and fund balance includes interest on financial assets and financial liabilities measured at amortized cost calculated on an effective interest basis.

iii) Cash and cash equivalents

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

iv) 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.

3. Significant Accounting Policies (continued)

a) Financial instruments (continued)

v) 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.

vi) Financial asset impairment

Impairment of debt instruments measured at amortized cost is calculated using the expected credit loss approach. The impairment of financial assets is presented in the statement of financial position as a deduction from the gross carrying amount of investments.

EXPECTED CREDIT LOSS IMPAIRMENT MODEL

The Corporation's impairment on financial assets is an output of a model with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The impairment amount reflects an unbiased, probability-weighted outcome which considers multiple scenarios based on reasonable and supportable forecasts.

The impairment model measures the expected credit losses (ECL) using a three-stage approach based on the extent of credit deterioration since origination:

- Stage 1 – where there has not been a significant increase in credit risk since initial recognition of a financial asset, an amount equal to 12-month ECL is recorded.
- Stage 2 – when a financial asset experiences a significant increase in credit risk subsequent to the origination but is not considered to be in default, an amount equal to lifetime ECL is recorded.
- Stage 3 – when a financial asset is credit-impaired, an amount equal to lifetime ECL continues to be recorded or the financial asset is written off.

MEASUREMENT OF ECL

The measurement of ECL is a function of the probability of default (PD), loss given default (LGD) and the exposure at default (EAD). The PD is an estimate of the likelihood that a financial asset will not be repaid and will go into default. LGD is an estimate of the amount that may not be recovered in the event of default. The assessment of the PD and LGD is based on historical data and current market conditions adjusted by reasonable and supportable information about future economic conditions. EAD is an estimate of the outstanding amount of credit exposure at the time a default may occur.

3. Significant Accounting Policies (continued)

a) Financial instruments (continued)

vi) Financial asset impairment (continued)

SIGNIFICANT INCREASE IN CREDIT RISK

At each reporting date, the Corporation assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The assessment considers borrower-specific quantitative and qualitative information with the impact of forward-looking macroeconomic factors.

The Corporation's assessment of significant increase in credit risk is performed quarterly based on the following three factors. If any of these factors indicate that a significant increase in credit risk has occurred since the date it was initially recognized, the instrument is moved from Stage 1 to Stage 2:

- The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if the credit rating has dropped below investment grade, based on an external rating agency's ratings.
- The Corporation considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.
- Additional qualitative reviews are performed to assess the staging results and make adjustments, as necessary, to better reflect the positions whose credit risk has increased significantly.

For the purpose of this assessment, credit risk is based on an instrument's PD, not the losses the Corporation expects to incur. The assessment is generally performed at the instrument level.

For certain instruments with low credit risk as at the reporting date, it is presumed that credit risk has not increased significantly relative to initial recognition. Credit risk is considered to be low if the instrument has a low risk of default, and the borrower has the ability to fulfill their obligations both in near term and in the longer term, including periods of adverse changes in the economic or business environment. The Corporation considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

If a debt security had low credit risk at the date of initial application of IFRS 9, then the Corporation has assumed that credit risk on the asset had not been increased significantly since its initial recognition to the date of initial application.

DEFINITION OF DEFAULT

The Corporation considers a financial asset to be in default when:

- The external rating agencies have assigned a default rating to the investment;
- The debt issuer or obligor has not met a legally scheduled payment or has indicated that it will miss such a payment in near future;
- The borrower is past due more than 90 days on any credit obligation to the Corporation; or
- The borrower has sought or been placed in bankruptcy resulting in the delay or avoidance of repayment of the amount owing.

FORWARD LOOKING INFORMATION

The measurement of ECL and the assessment of significant increase in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward looking information requires significant judgment.

3. Significant Accounting Policies (continued)

a) Financial instruments (continued)

vi) Financial asset impairment (continued)

MACROECONOMIC FACTORS

In its ECL models, the Corporation relies on a broad range of forward looking information as economic inputs, such as: GDP growth, unemployment rates, central bank interest rates, oil price per barrel and new housing starts. Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data.

MULTIPLE FORWARD-LOOKING SCENARIOS

The Corporation determines ECL using multiple probability-weighted forward looking scenarios. Based on economic forecasts of large Canadian banks, the Corporation formulates a ‘base case’ scenario of the future direction of relevant economic variables as well as representative ranges of other possible forecast scenarios. This process involves developing additional economic scenarios and considering the relevant probabilities of each outcome. External information includes economic data and forecasts published by the Bank of Canada, provincial government bodies and large Canadian financial institutions.

The Corporation will typically probability weight the ‘base case’ scenario most heavily as it represents the most likely outcome and is aligned with information used by the Corporation for other purposes such as planning and budgeting. The other scenarios represent more optimistic and pessimistic outcomes.

WRITE-OFF

The Corporation writes off an impaired financial asset (and the related impairment allowance), either partially or in full, when there is no realistic prospect of recovery. In subsequent periods, any recoveries of amounts previously written off are credited to impairment on financial assets in the statement of operations, other comprehensive income and fund balance. No financial assets, either partially or in full, were written off during the year.

b) Revenue recognition

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Corporation recognizes revenue when it transfers control of a product or service to a customer.

NATURE OF GOODS AND SERVICES

The Corporation earns assessment revenue outside of income from interest on investments. Assessment revenue is recognized based on the services provided by the Corporation in accordance with the CU Act and the CUCS Act. The consideration received for providing these services does not include any significant financing components that are not included in the transaction price.

ASSESSMENT REVENUE

The Corporation’s principal activity from which it generates revenue is to serve as the deposit guarantor for Saskatchewan credit unions, and the primary regulator for credit unions and SaskCentral. The revenue is composed of deposit assessments charged to Saskatchewan credit unions based on a percent of total credit union deposit balances of the preceding fiscal year, and a regulatory assessment charged to SaskCentral. The assessments are charged to credit unions and SaskCentral annually for which payment is due immediately upon demand. The performance obligations are satisfied over time as services are provided over time. Accordingly, revenue is recognized monthly. Rebates for deposit assessment revenue may be recognized when authorized by the board. During the year, no rebates for deposit assessment revenue were recognized.

3. Significant Accounting Policies (continued)

c) Interest from investments

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

d) Provision for financial assistance

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that the outflow of economic benefits will be required to settle the obligation. The amount, timing and form of financial assistance that may be required for credit unions are dependent on future events and outcomes. Outcomes that may require financial assistance are stabilization, amalgamations, arrangements, liquidations or dissolutions.

The Corporation provides for a provision for financial assistance based on three main components, as follows:

1. Where the need for financial assistance becomes likely and the amount for specific credit unions can reasonably be estimated.
2. Where the amount can be reasonably estimated and arises from an indemnity agreement entered into with credit unions due to outcomes.
3. Where the Corporation has determined there is the potential for financial assistance based on analysis of the inherent risks in the credit union system.

A contingent liability for financial assistance arises from a liability of sufficient uncertainty with respect to the probability and amount of the expected outflows such that it does not qualify for recognition as a provision. Depending on the probability of loss occurring, contingent liabilities may be disclosed in the notes to the financial statements. Contingent liabilities may be established based on potential individual credit union financial assistance payments and/or an assessment of the inherent risk in the credit union system. Provisions and contingencies for financial assistance consist of the calculation of potential liabilities and contingencies to meet the IFRS standards. Calculations include management's judgment based on historical information and other factors. Credit union analysis for potential liabilities includes a review of all credit unions based on key financial and risk information and provisions related to amalgamations or arrangements and any indemnity agreements.

e) 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 the Co-operative Superannuation Society (CSS) Pension Plan. 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 $204 (2017 – $186) were paid to defined contribution retirement plans during the year.

f) 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 (receivable) payable is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognized as a (recovery) expense 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.

Year ended December 31 (in thousands)

3. Significant Accounting Policies (continued)

g) New and revised IFRSs issued but not yet effective

LEASES

The IASB has published a new standard, IFRS 16 – Leases (IFRS 16). The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting has remained largely unchanged. IFRS 16 supersedes IAS 17 – Leases and related Interpretations and is effective for periods beginning on or after January 1, 2019. Based upon a preliminary assessment, the Corporation will recognize a right-of-use asset of $253 and a corresponding lease liability of $258, resulting in a net decrease of $5 to the opening fund balance on January 1, 2019.

4. Cash and Cash Equivalents

Cash and cash equivalents consist of cash and interest bearing operating accounts composed of the following amounts:

	2018 $	2017 $
Cash	**93**	225
Interest bearing short-term accounts	**1,042**	681
Total	**1,135**	906

Year ended December 31 (in thousands)

5. Investments, Net of Impairment

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.

	2018 $					2017 $	
	Term to maturity						
Category	0 to 1 year	1 to 3 years	3 to 5 years	Carrying Value	Fair Value	Carrying Value	Fair Value
Government of Canada	**23,086**	**49,221**	**23,687**	**95,994**	**95,527**	85,614	84,928
Yield [1]	**1.47%**	**1.62%**	**2.12%**	**1.71%**		1.42%	
Provincial governments	**11,103**	**66,017**	**18,565**	**95,685**	**95,839**	87,445	87,767
Yield [1]	**1.70%**	**2.17%**	**2.60%**	**2.20%**		1.99%	
Municipals	**2,031**	**12,222**	**-**	**14,253**	**14,133**	14,658	14,529
Yield [1]	**1.18%**	**1.82%**	**-**	**1.73%**		1.85%	
Concentra Bank	**2,500**	**4,750**	**-**	**7,250**	**7,250**	12,100	12,024
Yield [1]	**1.40%**	**1.48%**	**-**	**1.45%**		1.61%	
Chartered banks	**18,541**	**50,526**	**7,442**	**76,509**	**75,851**	68,768	68,154
Yield [1]	**1.83%**	**2.17%**	**2.28%**	**2.10%**		1.82%	
Commercial securities	**11,282**	**17,328**	**-**	**28,610**	**28,381**	34,841	34,494
Yield [1]	**1.35%**	**1.98%**	**-**	**1.73%**		1.54%	
	68,543	**200,064**	**49,694**	**318,301**	**316,982**	303,426	301,896
Accrued interest				**1,213**		1,346	
Impairment on financial assets				**(29)**		-	
				319,485		304,772	

[1] represents weighted average effective interest rates based on year-end carrying values

Year ended December 31 (in thousands)

NOTES TO THE FINANCIAL STATEMENTS

6. Accounts Payable

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

	2018 $	2017 $
Accounts payable	**722**	686
Unclaimed balances	**455**	330
	1,177	1,016

The Corporation is responsible to administer unclaimed balances received from credit unions pursuant to subsection 71(1) of the CU Act, 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

The components of income tax receivable in the statement of financial position is as follows:

	2018 $	2017 $
Current income tax recovery		
Relating to the current year	**(50)**	(115)
Deferred income tax recovery		
Origination and reversal of temporary differences	**(4)**	-
	(54)	(115)

Reconciliation of income tax (recovery) expense included in the statement of operations, other comprehensive income and fund balance is as follows:

	2018 $	2017 $
Income tax expense calculated at 13% (2017 – 13%)	**1,912**	865
Adjustments for the effect of:		
Non-taxable income*	**(1,992)**	(1,925)
Expenses not deductible for tax purposes	**31**	945
	(49)	(115)

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

Year ended December 31 (in thousands)

NOTES TO THE FINANCIAL STATEMENTS

8. Lines of Credit

The Corporation has the following authorized lines of credit available:

	2018 $	2017 $
Operating line of credit	**2,000**	2,000
Line of credit for financial assistance	**17,250**	10,000
	19,250	12,000

The Corporation has a credit facility with a major Schedule 1 Canadian Bank for $12,000 (2017 – nil) where the Corporation is required to maintain more than fifty percent of its current asset management portfolio with the institution, based on most recent market values. The facility bears interest equal to the lending institution's floating prime rate minus 0.25% per annum. The lending institution's current floating prime rate is 3.95%. All amounts under this credit are repayable upon demand and are unsecured as the Corporation has pledged no assets.

In addition, the Corporation has a credit facility with a major Schedule 1 Canadian bank for $7,250 (2017 – $12,000). This facility is renewed annually and has an interest rate equal to the lending institution's floating prime rate of interest less 0.5%, payable upon demand with interest payable monthly. The lending institution's current floating prime rate is 3.95% (2017 – 3.20%). For this facility, the Corporation has pledged investments with a market value of $7,250 (2017 – $12,024) and a carrying value of $7,250 (2017 – $12,100) as security for the credit facility. 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

	2018 $	2017 $
Corporate governance	**112**	233
Salaries and benefits	**3,786**	3,836
Technology	**422**	422
Professional fees	**441**	310
Travel	**142**	135
Facilities	**201**	213
Contract services	**447**	484
Preventive services	**24**	11
Other	**185**	155
	5,760	5,799

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

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.

	2018 $	2017 $
The board and board committees		
Per diems, honorariums and other benefits	**79**	93
Executive management		
Salaries and other short-term employee benefits	**915**	1,024
Post-employment benefits	**71**	81
	986	1,105
	1,065	1,198

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 external rating agencies and also includes unrated Concentra Bank 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.

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:

Investment Portfolio Rating*	2018 Carrying Amount $	2017 Carrying Amount $
AAA	**99,418**	92,404
AA	**154,037**	68,921
A	**57,596**	130,001
Unrated	**7,250**	12,100
	318,301	303,426
Accrued Interest	**1,213**	1,346
Impairment on financial assets	**(29)**	-
Investments, net of impairment	**319,485**	304,772

* per external rating agencies

Cash and cash equivalents

The Corporation held cash and cash equivalents of $1,135 (2017 - $906). The cash and cash equivalents are held with banks and other financial institution counterparties that are rated as investment grade, based on external rating agencies' ratings.

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 $6,213 or 1.96% (2017 - $5,795 or 1.91%) 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 measured at amortized cost.

NOTES TO THE FINANCIAL STATEMENTS

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, 2018, the liquidity score is 3.4 (2017 – 3.4).

To further manage liquidity risk, the Corporation has $19,250 (2017 – $12,000) in authorized lines of credit available (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, 2018, the Fund is 1.58% (2017 – 1.60%) 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.

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.

Fair Value Hierarchy Investments	2018 $	2017 $
Level 1	**-**	-
Level 2	**316,982**	301,896
Level 3	**-**	-
	316,982	301,896

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, 2018

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[1]	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[2]	Goodsoil
Horizon Credit Union	Melville
Innovation Credit Union	Swift Current
Kerrobert Credit Union Limited	Kerrobert
Lafleche Credit Union Limited	Lafleche
Landis Credit Union Limited[3]	Landis
LeRoy Credit Union Limited	LeRoy
Luseland Credit Union Limited	Luseland
Macklin Credit Union Limited	Macklin
New Community Credit Union	Saskatoon
North Valley Credit Union	Esterhazy
Pierceland Credit Union Limited[4]	Pierceland
Plainsview Credit Union	Emerald Park
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
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

[1] Merged with Diamond North Credit Union January 1, 2019
[2] Merged with Innovation Credit Union January 1, 2019
[3] Merged with Biggar and District Credit Union January 1, 2019
[4] Merged with Innovation Credit Union January 1, 2019

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.

EFFECTIVE 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 PRFIs 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 to implement industry best practices where it is reasonable to do so
- 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 PFRIs' 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 PRFIs.

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 PRFIs.
- 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.

DEPOSITS GUARANTEED

SINCE 1953

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

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