annual report 2017

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CUDIC™

Nova Scotia Credit Union Deposit Insurance Corporation

annual report 2017

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the board

The Board of Directors

Johnny Armstrong

Born in Yarmouth, Nova Scotia, Johnny has worked in the area all his life. First, teaching school for 32 years and presently, working as a REALTOR®. During his 10 year career in Real Estate, he has served on the Board of Directors of the Nova Scotia Association of REALTORS®. In addition to the NSAR Board of Directors, he is active on several committees including the Education Committee, Provincial and Municipal Affairs Committee and the Government Relations Committee. As a member of the CUDIC Board of Directors, he is on several committees as well, including Policy and Human Resources.

He also has an extensive history of community involvement, from coaching minor baseball to sitting on the board of directors of the local credit union to chairing the local bass fishing club and many other varied things in between.

Many of his interests include sports, sport fishing, hunting, reading and gardening. He has three children and lives in Arcadia with his wife, Yvonne.

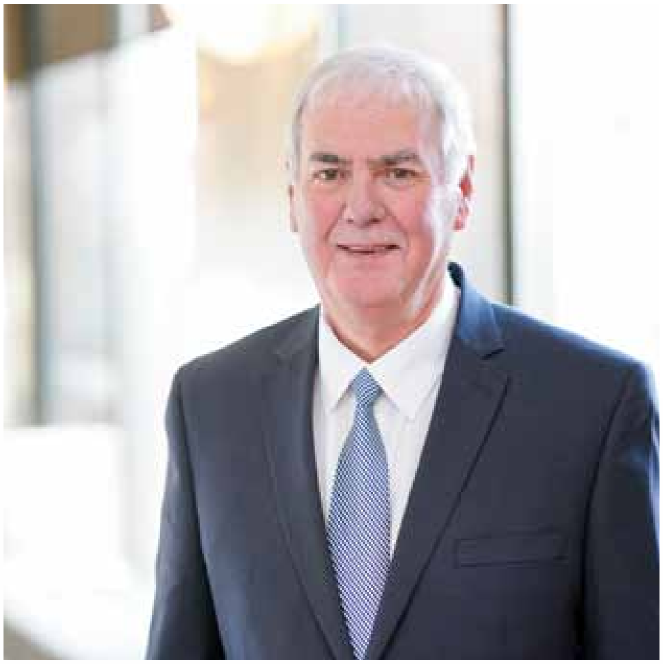
Bev Cooke

Bev Cooke has worked at various levels of government for 40 years including supervisory and management roles and continues to work within the provincial government. She also held several leadership roles in voluntary service including Chair for the Association of Municipal Tax Collectors (NS), Chair for the Cumberland Early Intervention Program, CIC officer with DND, and involvement with other not-for-profit organizations. Bev has been on provincial and national Canadian Red Cross committees, was a Disaster Management Instructor Trainer for years and has worked throughout Canada and the US during major disasters.

Bev was on the Board of Community Credit Union for several years serving on all committees (Audit/Risk, Credit/Market, and Chair of the Merger and Governance and Ethics committees) prior to becoming Board Chair. She completed the CUDA training for Directors and then received her ACCUD (Accredited Canadian Credit Union Director) designation.

She is currently President and Chair of both Cumberland Smile and Shine and the Nova Scotia Early Childhood Development Intervention Services, continues to volunteer within Disaster Management and is excited about her most recent appointment to the CUDIC board.

Bev and her husband Gerard enjoy their cottage at Amherst Shore. They have three sons and one granddaughter.



Jim Kavanaugh

Jim, a retired High School Principal, was appointed to the CUDIC Board in July 2016. Jim, currently serves as Past President of the NS Retired Teachers Organization, is a Member of the Nova Scotia Seniors Advisory Council and is the Honorary Chair of the New Waterford Coal Bowl Classic, a national High School boys basketball tournament. In the past, Jim has served as the Atlantic Provinces Chair of the Credit Union Chairs Association; Director, Atlantic Central; Chair, Teachers Plus Credit Union; Director, Canadian Association of Retired Teachers; Director, NS Teachers Pension Plan; Chair, NSTU Group Insurance Trustees; NSTU Secretary Treasurer; and NSTU 2nd Vice President. In 1998 Jim was chosen Executive of the Year by the Cape Breton Sports Heritage Hall of Fame. In 2002, the NS School Administrators Association selected Jim as the NS Distinguished Principal of the Year, and the following year, the Canadian Association of Principals awarded Jim the title of Canadian Distinguished Principal of the Year. Jim and his wife Mary have one daughter, Kim, and one granddaughter, Kendra. Their only son, Quinn, a teacher and Red Seal pipe fitter, passed away in 2013.

Bill Legge

Bill Legge was a career banker for some 34 years, working in eleven different towns and cities in five provinces. He and his wife Betty Jean retired in 2001 from Toronto and moved back to Halifax, splitting their time between Halifax and their property in Marble Mountain, Cape Breton. After moving back, he continued his volunteer efforts by serving on several provincial advisory boards, and community organizations as well as continuing his Rotarian membership. During the ensuing 10 years, he did part time consulting in Automotive Finance for both Canadian and US companies. He was appointed to the CUDIC Board in 2013. Since being appointed, he has worked on all committees, served as Vice-Chair for three years and was elected Chair in 2017.

Throughout his business career, he has served in leadership roles on numerous volunteer and business organizations. He began this journey, joining the Kinsmen in 1970 and became the Association's 63rd National President in 1983. He was given a Life Membership in 1985. A Newfoundlander by birth, attended Memorial University of Newfoundland, and is married to Betty Jean from PEI. They have a son, daughter and four granddaughters.

Gerard MacKinnon

Gerard was born and raised in Sydney, Nova Scotia.

He received a Diploma in Civil Engineering Technology from Nova Scotia Eastern Institute of Technology (NSEIT) and a Master of Business Administration Degree, City University Bellevue, Washington, USA.

Gerard has ten years construction experience and over thirty years in post-secondary education at what is now Cape Breton University in the Engineering Technology Program and the School of Engineering.

During his time at the University, he was involved in technological innovation particularly in the area of Geomatics.

Gerard served on a number of community organizations including: Board Member, Cape Breton Ski Club (Past Chair); Executive of Local Nova Scotia Government Employees Union (Vice President); Member of Cape Breton Centre for New Media Development; Member of Geomatics Association of Nova Scotia; Chair Health Studies Working Group (JAG); Director GIS/GPS Centre, UCCB; Board of Directors GANS; Board of Directors Sydney Credit Union (Past Chair); Member of Society of Certified Engineering Technicians and Technologists of Nova Scotia; and Board Member of Credit Union Deposit Insurance Corporation (Past Chair).

Gerard is retired and lives in Coxheath, Cape Breton, Nova Scotia.

Karen MacWilliam

Karen MacWilliam is an independent consultant, specializing in risk management and insurance. A native of Vancouver, BC, she holds a B.A. in Economics, CIP and FCIP designations from the Insurance Institute of Canada and a Canadian Risk Management (CRM) diploma.

Karen held positions as an insurance underwriter, insurance broker and risk manager prior to starting her consultancy. She has taught at Simon Fraser University and the University of Northern BC and she has taught at Dalhousie University since 2008. In addition to consulting work, Karen is a sought-after speaker and trainer. She has been qualified as an expert witness in the courts of British Columbia, Alberta, and Nova Scotia on the subjects of risk management and insurance. Karen has authored several reference and text books and has had numerous articles published.

She has served on the Boards of several non-profit organizations and has acted as a consultant to numerous credit unions.

She lives in a restored century home in Wolfville.

Rod A Munroe

Rod Munroe is a proud Cape Bretoner having lived most of his life on the beautiful Island. He graduated from Riverview Rural High School in 1960 and later received his Bachelor of Business Administration from Cape Breton University (1988). In addition, he received the Canadian Institute of Management Designation and was the first recipient of the Canadian Credit Union Institute Fellowship Designation in Nova Scotia from the Cooperative College of Canada (1983).

Rod spent his entire career in the Financial Services Sector, starting with one of the big five banks for a period of 4 years in the 60's followed by 36 years in the Nova Scotia Credit Union System at Sydney Credit Union, retiring early in 2000 as General Manager. During his tenure with SCU he held various positions in the system: Board Member League Data, Board Member Co-operative Trust Company of Canada, Board Member and Chair of the CUMIS Group Ltd. (National Credit Union Insurer). Current member and Past Chair Nova Scotia Credit Union Deposit Insurance Corporation.

Rod's community involvement included being an executive member of the Board of Governors Cape Breton University, Leaders of the Way Campaign, Chair and Board Member United Way of Cape Breton, Campaign Chair Cancer Society Relay for Life, Chair, Board of Trustees, Bethel Presbyterian Church, Board Member Cove Guest Home, Past Chair, Celtic Colours International Festival Society.

Rod and his wife Judy have two daughters, Laurel and Alyson and grandson Jack. Hobbies include wood working, antique car restoration, welding and old timers hockey.

committees

Committes of the Board of Directors

Human Resources Committee

This committee reviews and makes recommendations to the Board on policies relating to the Corporation's human resources plans, compensation, employee benefits and related matters.

- Johnny Armstrong, *Chair*
- Gerard MacKinnon
- Roddie Munroe
- Bev Cooke
- Bill Legge, *Ex-officio*

Audit Committee

This committee reviews the audited annual financial statements of the Corporation. They also review recommendations made by the external auditor regarding internal controls and procedures and ensures that appropriate action is taken.

- Roddie Munroe, *Chair*
- Jim Kavanaugh
- Gerard MacKinnon
- Karen MacWilliam
- Bill Legge, *Ex-officio*

Investment Committee

This committee reviews the Corporation's investment performance, policies and procedures.

- Jim Kavanaugh, *Chair*
- Roddie Munroe
- Gerard MacKinnon
- Karen MacWilliam
- Bill Legge, *Ex-officio*

Policy Committee

This committee develops and monitors policies for the Corporation. Furthermore it shall provide support, advice and recommendations to the Board on issues related to CUDIC policies and assist the Board in fulfilling its governance obligations.

- Karen MacWilliam, *Chair*
- Johnny Armstrong
- Jim Kavanaugh
- Bev Cooke
- Bill Legge, *Ex-officio*

In Memorial

Marion Garlick

In October, we were shocked and saddened by the sudden death of long serving Director, Marion Garlick. She was a committed credit union volunteer having served on the board of LaHave River Credit Union, Credit Union Central of Nova Scotia and as Chair of League Savings and Mortgage.

She was a well-known lover of flowers and animals. Most of all she was a devoted wife, mother and friend. We all miss her forthrightness, sense of humour and kind nature.

The Board, Management and Staff of the Corporation mourn her loss and remember her with fondness.

Report of the Chair of the Board

On behalf of the Board of Directors of the Nova Scotia Credit Union Deposit Insurance Corporation, I am pleased to provide this Annual Report outlining another successful year in 2017.

Credit Unions in Nova Scotia now total 24, serving members in 60 different locations. Our team of Analysts completed internal reviews of six Credit Unions as well as loan reviews at 13 Credit Unions. The Board had an opportunity to review the results of these visits and approve recommendations made by staff. CUDIC staff again throughout the year worked closely with Credit Union staff and boards across the province providing advice and guidance where required.

On the deposit side, our Insurance coverage of $250,000 is the highest of any financial institution in the province. Members are well served by this and is felt to be an advantage in a fiercely competitive market place.

Our Board of Directors consists of seven people from different backgrounds and geographical parts of our province, committed to ensuring depositor's funds are kept safe. Members on our board during the year had a combined tenure of 35 years. Quarterly board meetings are supplemented by regular standing committee meetings named in our Annual Report. In addition to dealing with the business of overseeing the Corporation, the agenda of all board meetings includes informative educational presentations. Presenters this year included, Ray Ivany, Past President of Acadia University, Mary Oxner, Chair and Ken Shea, CEO, East Coast Credit Union and Andrew Boyd, Director, Financial Consulting, Atlantic Central. Our board meetings are regularly attended by the Superintendent of Credit Unions and the CEO of Atlantic Central. Additionally, board members attended the Atlantic Central Annual and Fall Conference meetings, and the CCUA Conference held in Halifax in 2017. During the year, I was privileged to also attend the Credit Union Prudential Supervisors Association Conference, the International Credit Union Regulators Network Conference and the World Credit Union Conference. Attending these events provided members a great insight into Credit Union and Regulatory work not only in Canada but also internationally.

Probably the most significant decision taken by the board in 2017 was approving the outsourcing and completion of a Corporation Self-Assessment in comparison to International Regulatory Standards. After tendering the work, Andy Poprawa, an international renowned consultant, was selected to do the work. The final report was presented at the December board meeting. The report concluded we were either compliant or largely compliant in all of the 23 areas tested. Of special mention in his report was the top marks given our CEO Pat Ryan and his staff. While a good report, there are areas we will be working on in conjunction with our overall strategic planning.

The year was not without tragedy, as we learned on October 26, board member Marion Garlick had passed away. Marion was a dear friend and dedicated Credit Union member all of her adult life. She served in numerous leadership roles associated with Credit Unions. She had been a member of the CUDIC board for the past six years, always promoting Credit Union membership. "She is gone, but not forgotten."

We continue to enjoy a knowledgeable and dedicated staff, who work tirelessly to ensure our corporation's responsibility is carried out effectively to protect member deposits. During the year, we welcomed a new analyst to our staff, Joe Wilkinson.

Thanks as well to my fellow board members during the year for their support and dedication in carrying out their duties. A welcome to our newest board member Beverley Cooke, who will join us in 2018.

Respectfully Submitted,
W.F. (Bill) Legge
Chair of Board of Directors

Report of the Chief Executive Officer

I AM PLEASED TO REPORT on the operational results for the Corporation and the state of the system for 2017.

The Year in Review

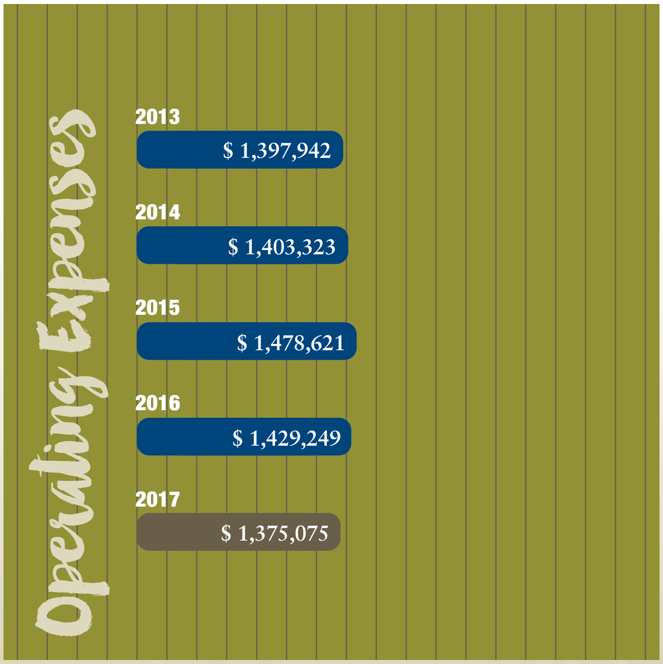
This year several initiatives were undertaken by the Corporation:

- Worked with CUMA and Atlantic Central on liquidity guidance designed to enhance the monitoring and forecasting of system liquidity reserves.
- Continued to develop our Recovery and Resolution plan for dealing with troubled credit unions.
- Completed Crisis Communications plan.
- Completed a review of work methods resulting in several routine changes that have improved our operational efficiency.
- Board authorized an independent organizational effectiveness assessment of the corporation measured by the International Credit Union Regulator's Network (ICURN) principles for effective prudential supervision of cooperative financial institutions.
- CEO continued to serve with the Credit Union Prudential Supervisors Association (CUPSA) payments working group in its collaboration with Centrals on the reform of the payments system.
- Continued to enhance our corporate cybersecurity regime with the assistance of our external service providers.
- Intervened as necessary with credit unions to ensure that risk levels remain within acceptable parameters.
- Continued our robust examination program.

External Affiliations

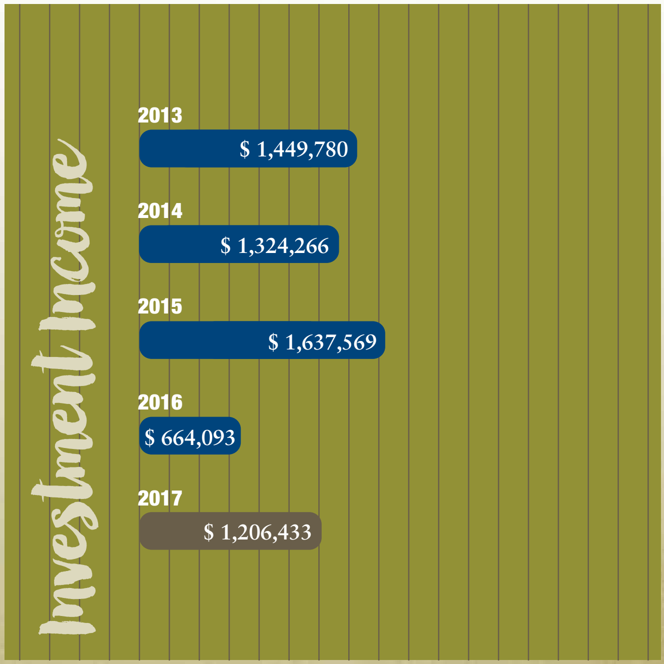
The Corporation has regular and ongoing involvement with several regulatory associations.

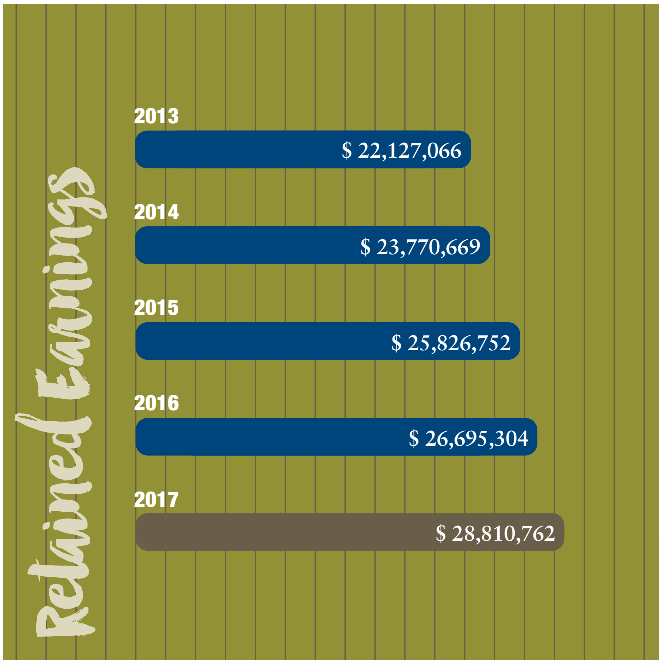
The Credit Union Prudential Supervisors Association of Canada (CUPSA). The organization is composed of credit union deposit insurers and prudential supervisors from across Canada. CUPSA works toward maintaining a sound and sustainable credit union sector. Our work in the past year has continued in the areas of payment reform, cybersecurity and IFRS 9 implementation. I meet frequently with peers from across the country which aids in executing our corporate mission.



The International Credit Union Regulators Network (ICURN). This organization has members from around the world who are engaged in regulation of the credit union systems in their countries. I participated in the Annual Conference and Professional Development day in Vancouver, BC during Q3. The participating countries considered topics including liquidity risk, crisis resolution, fintech and corporate governance. We were exposed to the challenges being confronted by our colleagues from across the globe including Latin America, the Caribbean, Asia and Africa.

The Financial Protection Forum is an association of prudential regulators that span the financial services industry including insurance, investment dealers and federally regulated deposit taking institutions. The association meets annually to discuss current issues. This year's meeting took place in Toronto and covered topics including crisis communications, stress testing and payments modernization.





Local Relationships

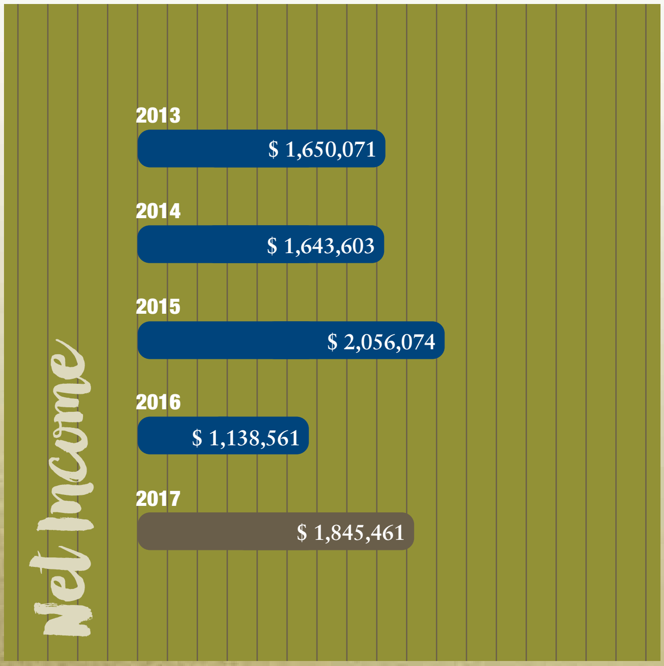
We communicate regularly with leaders from the other Atlantic Canadian regulators and deposit insurers to share information and best practices as we execute our respective mandates.

The Superintendent's Office, Atlantic Central and CUDIC continue to maintain an excellent working relationship, with regular meetings held during the year providing a forum to discuss areas of mutual concern.

Teamwork

I wish to extend my thanks to the Staff and Board of the Corporation who dedicate themselves to executing our mission. Welcome to Joe Wilkinson who joined the Corporation as an Intermediate Analyst in November.

I am grateful to the Board for their wise counsel and strong support during the year. Welcome to Bev Cooke past Chair of Community Credit Union of Cumberland Colchester who was appointed to the Board during Q4.



CUDIC Results

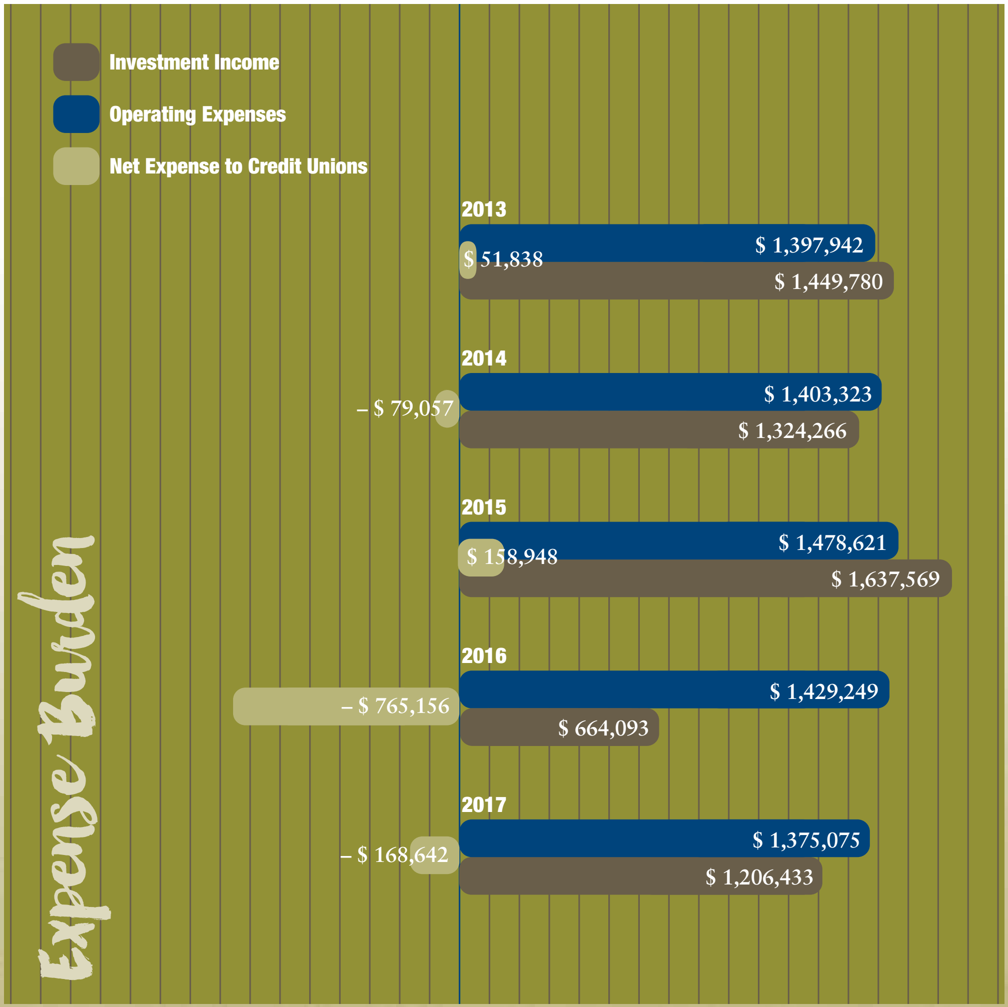
CUDIC produced positive results in 2017. Net earnings were $1,845,461($1,138,561 '16). Improvement is related to a substantial increase in Investment Income because of higher realized gains, which rose by 81% to $1,206K for the year after experiencing below average returns in 2016. Assessments charged to credit unions increased slightly to $2 Million. Weighted average differential premium for the system was largely unchanged at 8.15bp basis points (8.13bp '16).

Operating expenses reduced by 3.8% or $54K from 2016. Material reductions were achieved in Boards and Committees $16K (12.1%), Salaries and Benefits $76K (9.8%), and travel $17K (18.2%). Reductions are reflective of rationalization of activities at both the staff and board level. These have included a change in our examination and professional development methods. Contract worker expense increased $12K (12.2%) as casual staff were used to offset a full-time position which was vacant for most of the year. Professional Fees increased $46K (38%) due to costs associated with the completion of our Organizational Effectiveness Assessment and Crisis Communications Plan. Other expense categories were largely in line with historical figures.

The Investment Committee and Board exercise thorough oversight of our investment portfolio. A third party manages approximately 98% of our funds; portfolio is comprised of fixed income products in combination with Canadian and U.S. equities. The one-year return on our managed portfolio was 5.20% (9.72% '16). This is acceptable performance after a remarkable return in 2016 as Canadian equities benefited from the recovery in oil prices.

The holdings in our portfolio are carefully selected for quality by our investment counsel and are well diversified. Since its inception in 1992, the portfolio has had an overall return of 6.24%. As at December 31, 2017, our investments were .6% in cash and equivalents, 50.7% in Fixed Income, 31.9% in Canadian Equity, and 16.8% in US Equity. All investments have a ready aftermarket and can be liquidated on short notice if necessary. The unrealized increase in value (Accumulated Other Comprehensive Income) on the equity holdings in our portfolio since inception is $1,580,616 ($1,314,827 in 2016).

Fund balance as at year-end was $30,109,120 or 1.18% of system assets (1.15% '16) versus a benchmark of 1%.



System Results

Audited results reflect net income after taxes of $9.6 Million or 39bps. ($8.1 Million – 34bps '16). Credit Unions are to be congratulated on a 12% improvement in collective bottom line. The improvement is a combination of tight expense control 3.26% of WAA (3.50% '16) and reduced provision for loan loss .16% (.18% '16) which more than offsets at 18 bp drop in Gross Financial Margin to 2.84%.

Asset growth was 5.7% or $138 Million (4.09% '16). Equity position remains solid at 7.98% (8.10% '16). Deposits grew by 6.2% (4.23% '16), while loan growth was 7.3% (3.95% '16). Loan / asset ratio is 79.86% (78.67% '16).

Loan book continues to be dominated by personal and business mortgages, which grew by $99.4 Million, including both organic growth as well as syndicated transactions lead by Atlantic Central (8% year over year and represent 60% of the total portfolio). Business loans have grown by 11.5% or $26.2 Million. Business Loans and Mortgages and now represent 21% of total loans. Personal loans grew by 5.6% or $20.7 Million and make up 19.1% of total loans.

Delinquency has improved at 1.43% (1.67 % ’15) for all accounts and LOCs over 30 days and 90-day delinquency rate at .80% has edged up slightly from the previous year (.76% ’16).

Assessments

2013	$ 1,598,233
2014	$ 1,722,660
2015	$ 1,897,126
2016	$ 1,903,717
2017	$ 2,014,103

Conclusion

The system continues to perform well in a competitive environment. Participants have continued to find ways to adapt to and overcome the many challenges that their financial institutions are confronted with. We appreciated the excellent cooperation we have received from all system participants in executing our mandate.

Respectfully submitted,

P.C. Ryan

Pat Ryan

Chief Executive Officer

System Results

	2017	2016	2015	2014	2013
Return on Assets (% of average assest)	0.39	0.34	0.34	0.36	0.35
Total Equity	7.98	8.10	8.06	8.28	8.38
Delinquency >30 days	1.43	1.67	1.55	1.38	1.33
Delinquency >90 days	0.80	0.76	0.68	0.62	0.57
Asset Growth	5.71	4.09	7.41	4.20	3.86
Deposit Growth	6.19	4.23	7.78	4.10	3.82
Loan Growth	7.30	3.95	6.81	6.30	6.77

Independent Auditor's Report

To the Directors of Nova Scotia Credit Union Deposit Insurance Corporation

We have audited the accompanying financial statements of Nova Scotia Credit Union Deposit Insurance Corporation which comprise the statement of financial position as at December 31, 2017, and the statements of earnings, equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Nova Scotia Credit Union Deposit Insurance Corporation as at December 31, 2017, and its financial performance and its cash flows for the year ended in accordance with International Financial Reporting Standards.

Nitos I Sweeney Limited

Chartered Professional Accountants
Licensed Public Accountants
Dartmouth, Nova Scotia | March 5, 2018

financial statements

Statement of Financial Position

December 31	2017	2016
Assets		
Cash and equivalents	**$ 1,199,840**	$ 1,370,016
Accounts receivable *(Note 4)*	**61,469**	53,739
Investments *(Note 5)*	**30,109,120**	27,832,002
Prepaid expenses	**9,775**	9,614
Property and equipment *(Note 6)*	**16,598**	23,294
	$ 31,396,802	$ 29,288,665
Liabilities		
Accounts payable and accrued liabilities *(Note 7)*	**$ 244,960**	$ 280,574
Unclaimed balances *(Note 8)*	**760,464**	727,963
	1,005,424	1,008,537
Commitments *(Note 10)*		
Equity		
Accumulated other comprehensive income, net of tax	**1,580,616**	1,314,827
Retained earnings	**28,810,762**	26,965,301
	30,391,378	28,280,128
	$ 31,396,802	$ 29,288,665

Approved on behalf of the board:

Director

Director

(See accompanying notes to the financial statements)

earnings

Statement of Earnings

Year ended December 31	2017	2016
Revenue		
Assessments and recoveries	**$ 2,014,103**	$ 1,903,717
Investment and other income	**1,206,433**	664,093
	3,220,536	2,567,810
Expenses		
Operating		
Board and committees	**113,289**	128,831
Contracted services and expenses	**112,519**	100,315
Depreciation	**16,494**	16,243
Insurance	**14,434**	14,920
Legal and consulting	**165**	165
Occupancy	**79,698**	79,315
Office	**74,239**	76,253
Professional fees	**165,710**	119,851
Risk management programs	**10,000**	10,000
Salaries and employee benefits	**695,766**	771,274
Telephone	**15,478**	17,571
Travel	**77,283**	94,511
	1,375,075	1,429,249
Net earnings	**$ 1,845,461**	$ 1,138,561

(See accompanying notes to the financial statements)

Statement of Equity

December 31, 2017

	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance January 1, 2016	$ 25,826,740	$ (439,989)	$ 25,386,751
Net earnings for the year	1,138,561	—	1,138,561
Realized gains (losses) transferred to net earnings during the year, net of tax	—	(7,071)	(7,071)
Unrealized gains (losses) on available for sale financial assets during the year, net of tax	—	1,761,887	1,761,887
December 31, 2016	$ 26,965,301	$ 1,314,827	$ 28,280,128
Net earnings for the year	1,845,461	—	1,845,461
Realized gains (losses) transferred to net earnings during the year, net of tax	—	550,405	550,405
Unrealized gains (losses) on available for sale financial assets during the year, net of tax	—	(284,616)	(284,616)
December 31, 2017	$ 28,810,762	$ 1,580,616	$ 30,391,378

(See accompanying notes to the financial statements)

Statement of Cash Flow

Year ended December 31	2017	2016
Cash provided by (used for)		
Operating activities		
Investment and other income received	**$ 475,597**	$ 1,530,760
Assessments and recoveries received	**2,014,103**	1,903,717
Payments to employees and suppliers	**(1,405,063)**	(1,423,189)
Receipts from unclaimed balances, net of paid outs	**32,501**	74,515
Cash flows provided by operating activities	**1,117,138**	2,085,803
Investing activities		
Purchase of investments, net of proceeds of sale	**(1,277,262)**	(2,085,397)
Additions to equipment and leaseholds	**(10,052)**	(12,141)
Cash flows used for investing activities	**(1,287,314)**	(2,097,538)
Increase in cash	**(170,176)**	(11,735)
Cash, beginning of the year	**1,370,016**	1,381,751
Cash, end of year	**$ 1,199,840**	$ 1,370,016

(See accompanying notes to the financial statements)

Notes to the Financial Statements

1. Governing Legislation and Operations

The Corporation was established in 1995 under the Credit Union Act (Chapter 4 of the Acts of 1994). The Corporation is a continuation of the Nova Scotia Credit Union Stabilization Fund. It is funded by premiums assessed against credit unions.

The purposes of the Corporation are to provide insurance against the loss of part or all of deposits in member credit unions, to provide financial assistance to credit unions for the purpose of stabilization and to protect deposits in credit unions by the development of sound business and financial policies and by implementation of loss prevention programs and other controls. These purposes are to be pursued for the benefit of depositors in credit unions and in such a manner as will minimize the exposure of the Corporation to loss.

Under the Credit Union Act, the Corporation has the power to do all things necessary or incidental to the furtherance of its purposes, including acquiring assets from credit unions, guaranteeing loans in credit unions and providing any form of assistance to credit unions. Among other things, it may make standards of sound business and financial practices, make or cause to be made examinations or inquiries in relation to credit unions, place limitations on the lending activities and loan policies of a credit union, issue directives (in consultation with Atlantic Central and the Superintendent of Credit Unions of Nova Scotia), and act as liquidator of a credit union.

On March 5, 2018, the Corporation's Board of Directors approved and authorized for issue the financial statements for the year ended December 31, 2017.

2. Basis of Preparation and Statement of Compliance

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis of preparation

The financial statements have been prepared on the historical cost basis, except for financial instruments that are accounted for according to the financial instrument categories defined by IAS 39. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Functional currency

These statements are denominated in Canadian dollars which is the Corporation's functional currency.

Use of estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. These estimates and assumptions are revised on a regular basis, and adjustments, if required are reflected in the period during which they become known. Final outcomes could differ from these estimates.

3. Summary of Significant Accounting Policies

Cash and equivalents

Cash and cash equivalents include cash on hand and on deposit.

Financial instruments

Financial assets and financial liabilities are initially recognized at fair value regardless of classification choice and are subsequently accounted for based on classifications described below. Classification depends on the purpose for which the financial instruments were acquired or issued, characteristics and the Corporation's designation of such instruments.

Financial assets are classified as either held-for-trading, available-for-sale, held-to-maturity or loans and receivables. Financial liabilities are classified as either held-for-trading or other financial liability. All financial instruments, including any derivatives, are subsequently measured on the statement of financial position at fair value except for loans and receivables, held-to-maturity financial assets and other financial liabilities which are measured at amortized cost.

Changes in fair values of financial assets and financial liabilities classified as held-for-trading are recognized in net income, while changes in fair values of available-for-sale financial assets are recognized in other comprehensive income until the financial asset is disposed of or becomes impaired, at which time the cumulative gain or loss is transferred to net income.

Accumulated other comprehensive income is reported on the statement of financial position as a separate component of equity (net of tax), and includes any unrealized gains or losses on available-for-sale financial assets. The Corporation has classified its managed investments as available-for-sale.

The Corporation has classified its financial instruments as follows:

Financial Assets/Liability	Classification	Sebsequent Measurement
Cash	Held-for-trading	Fair value
Investments		
Managed investments	Available-for-sale	Fair value
Credit Union investments	Held-to-maturity	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable	Other financial liability	Amortized cost
Unclaimed balances	Other financial liability	Amortized cost

Transaction costs other than those related to financial instruments classified as held-for-trading, which are expensed as incurred, are added to the fair value of the financial asset or liability on initial recognition and amortized using the effective interest rate.

Impairment of financial assets

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

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

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

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

Effective interest method

The Corporation uses the effective interest method to recognize investment income or expense which includes premiums or discounts earned on financial instruments.

The effective interest method is a method of calculating the amortized cost of a financial instrument and of allocating investment income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (other than premiums or discounts) through the expected life of the financial instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Property and equipment

Property and equipment are recorded in the Statement of Financial Position at historical cost, less accumulated amortization and impairment losses. Cost includes the expenditure that is directly attributable to the acquisition of the asset. When parts of an item of property and equipment have materially different useful lives, they are accounted for as separate items (major components) of property and equipment. Assets which are fully amortized are maintained on the books at original cost less accumulated amortization and show zero net book value until they are disposed of at which time they are removed from the books.

Amortization and impairment losses are recognized in net income. Amortization is based on their estimated useful life using the following rates and terms:

Furniture and office equipment
straight-line, 3 years
Leasehold improvements
straight-line, 5 years

Gains or losses on disposal of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of the property and equipment.

Residual values and useful lives are reviewed at the end of each reporting period and adjusted if appropriate.

Income tax

Current and deferred taxes are provided for in the same periods as the revenues and expenses to which they relate, except when they relate to items that are recognized outside the statement of earnings, in which case the taxes are also recognized outside the statement of earnings. In the case of a business combination, the tax effect is included in the accounting for the business combination.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Corporation expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets or liabilities, are included in the balance sheet as either a noncurrent asset or liability, with changes in the year recorded in the statement of earnings in tax expense or in the statement of comprehensive income, if they relate to an item directly recorded in this statement.

Deferred tax assets and liabilities are offset when there is a legally enforced right to set off current tax assets against current tax liabilities and the Corporation intends to settle its current tax assets and liabilities on a net basis.

Deferred taxes are reviewed at each statement of financial position date to take into account factors including the impact of changes in tax laws and the prospects of recovering deferred tax assets arising from deductible temporary differences.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business. Trade payables are classified as current liabilities if payment is due within one year or less. Trade payables are recognized at historical cost which is a reasonable estimate of fair value.

Cash flow statement

The cash flow statement is prepared using the direct method.

Income tax positions

The Corporation is subject to taxation in Canada. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Corporation maintains provisions for uncertain tax positions that it believes appropriately reflect its risk with respect to tax matters under active discussion, audit, dispute or appeal with tax authorities, or which are otherwise considered to involve uncertainty. These provisions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors.

The Corporation reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

Assessment income

Assessment rates are based on a risk classification system and are applied to average assets of member institutions for the period October 1 to September 30. Assessment income is recognized when the amount of revenue can be measured reliably and it is probable that the economic benefit will flow to the Corporation.

notes

Investment income

Interest and dividend income from a financial asset is recognized when it is probable that the economic benefits will flow to the Corporation and the amount of income can be measured reliably. Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Corporation and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition. Dividend income from investments is recognized when the shareholder's right to receive payment has been established.

Unrealized holding gains and losses related to available for sale investments are excluded from net earnings and are included in other comprehensive income until such gains or losses are realized or an other than temporary impairment is determined to have occurred.

Credit union assistance

A provision for assistance is only 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:

- Where the need for assistance becomes likely and the amount for specific credit unions can be reasonably estimated.
- Where the amount can be reasonably estimated and arises from indemnity agreements entered into with credit unions due to outcomes described above.
- Where the Corporation has determined there is the potential for financial assistance based on an 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 the 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 assistance payments and/or an assessment of the inherent risk in the credit union system.

New and revised IFRSs issued but not yet effective

IFRS 9 Financial instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments to replace the classification and measurement, impairment and hedge accounting phases of IAS 39 Financial Instruments: Recognition and Measurement. The new standard includes requirements of the classification and measurement of financial assets and liabilities, expected credit losses model that replaces the incurred loss impairment model used currently and the final hedging part of IFRS 9 that was issued in November 2013. The standard supersedes all previous versions of IFRS 9, is applied retroactively, and is effective for periods beginning on or after January 1, 2018. The Corporation is evaluating the impact the standard will have on its financial statements.

IFRS 15 Revenue from contracts with customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers which provides a single, principles based five-step model to be applied to all contracts with customers. The model specifies that revenue should be recognized when an entity transfers control of goods or services to a customer at the amount the entity expects to be entitled to receive. The standard provides guidance on the point at which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract, and various related matters. The revenue arising from financial instruments is not subject to the revenue requirements in IFRS 15. The standard is effective for annual reporting periods beginning on or after January 1, 2018 with early application permitted. The Corporation is evaluating the impact of the standard on its financial statements.

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 Leases which provides for a single model for classification of leases. Under the new model an asset and liability will be recorded for the majority of leases that are currently classified as operating leases. Exemptions are provided for short-term and low value leases. The asset will be amortized over the shorter of its useful life or lease term. The obligation will be measured using amortized cost. The standard is effective for annual reporting periods beginning on or after January 1, 2019 with early application permitted in certain situations. The Corporation is evaluating the impact of the standard on its financial statements.

notes

4. Accounts Receivable

	2017	2016
Weymouth Credit Union receivable	**$ 53,741**	$ 42,983
Credit Union assessments	**88**	—
Rebates receivable	**1,777**	4,757
Harmonized sales tax	**5,562**	5,698
Atlantic Central receivable	**301**	301
	$ 61,469	$ 53,739

5. Investments

	2017	2016
Managed investments	$ 30,109,120	$ 27,832,002

Managed investments consist of Canadian federal, municipal and provincial government and corporate bonds, indexed pool funds and equity instruments. Managed investments are stated at fair value, which is the quoted market price at the balance sheet date. The bonds have interest rates ranging from 1.0% to 7.802% on an annual basis, with maturity dates ranging from 1 month to 31 years. The cost of these investments at December 31, 2017 is $28,537,128 (December 31, 2016 $26,527,061).

6. Capital Assets

	Furniture + office equipment	Leasehold improvements	Total
Cost:			
January 1, 2016	$ 114,966	$ 4,500	$ 119,466
Acquisitions	12,141	—	12,141
December 31, 2016	$ 127,107	$ 4,500	$ 131,607
Acquisitions	10,052	—	10,052
Dispositions	(5,232)	—	(5,232)
December 31, 2017	$ 131,927	$ 4,500	$ 136,427
Accumulated amortization:			
January 1, 2016	$ 87,570	$ 4,500	92,070
Dispositions	—	—	—
Amortization	16,243	—	16,243
December 31, 2016	103,813	4,500	108,313
Dispositions	(4,978)	—	(4,978)
Amortization	16,494	—	16,494
December 31, 2017	$ 115,329	$ 4,500	$ 119,829
Net book value:			
December 31, 2016			$ 23,294
December 31, 2017			$ 16,598

Fully depreciated assets are retained in asset and accumulated depreciation accounts until such assets are removed from service. Proceeds from disposals are netted against the related assets and the accumulated depreciation and included in earnings.

7. Accounts Payable and Accrued Liabilities

	2017	2016
Trade payables and accruals	$ 68,058	$ 64,837
Accrual for retirement *(Note 14)*	176,902	208,742
Payable to credit union	—	6,995
	$ 244,960	$ 280,574

8. Unclaimed Balances

In accordance with the provisions of Regulation 13 of the Credit Union Act the Corporation has received deposits from credit unions representing unclaimed balances. These deposits must be held indefinitely by the Corporation until claimed by a depositor or creditor entitled to such funds.

Continuity of unclaimed balances:

	2017	2016
Balance beginning of year	$ 727,963	$ 653,448
• Add receipts from Credit Unions	34,098	75,266
• Less payouts to members	(1,597)	(751)
Balance end of year	$ 760,464	$ 727,963

9. Income Taxes

The Corporation is a deposit insurance corporation for income tax purposes and is subject to income taxes on its taxable income at the statutory rate prescribed for deposit insurance corporations. Income for tax purposes excludes assessments made against credit unions. Also, no deduction may be made against income for tax purposes for financial assistance given to or paid on behalf of credit unions.

The Corporation has accumulated non-capital losses for tax purposes which are available to reduce taxable income in future periods. The potential tax savings from claiming the losses have not been recorded.

The losses expire as follows:

2026	$ 350,910
2027	274,237
2028	476,604
2029	636,373
2030	663,694
2031	503,872
2032	539,388
2033	323,956
2034	390,113
2035	309,384
2036	788,447
2037	453,686
	$ 5,710,664

In addition the Corporation has allowable capital losses of $338,964 which are available to reduce capital gains in future periods.

10. Commitments

Lease commitments

The Corporation has a lease for its premises expiring December 31, 2021. The Corporation also has leases for vehicles expiring at various dates until 2019. The Corporation has done a thorough review of the lease conditions and concluded that they were all operating leases. The Corporation has expensed $104,857 during the current year (2016 $111,205) related to the operating leases.

Minimum future payments under these operating leases are as follows:

less than one year	$ 104,772
between one and five years	286,789
	$ 391,561

Credit union assistance

The Corporation has provided loan guarantees to Caisse populaire de Clare Limitée in the amount of $324,046. This guarantee expires on November 30, 2018 and was provided in connection with member loans transferred from another credit union. Should it be determined that a liability associated with this guarantee will arise, any such liability will be recorded by the Corporation at that time.

11. Nature and Extent of Risk Arising from Financial Instruments

The Corporation is exposed to risks of varying degrees of significance including credit risk, liquidity risk and market risk which could affect its ability to meet its obligations. The main objectives of the Corporation's risk management processes are to properly identify risks and maintain adequate capital in relation to these risks.

A) Credit risk:

Credit risk relates to the possibility that a loss may occur from the failure of another party to comply with the terms of the contract. Credit risk may arise from principal and interest amounts in 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 credit risk within the pooled funds is managed by the investment manager in accordance with the Corporation's investment policies.

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 reported immediately to the chief executive officer and to the audit committee.

B) Liquidity risk:

Liquidity risk relates to the possibility that the Corporation does not have sufficient cash or cash equivalents to fulfil its financial obligations as they come due. In order to mitigate this risk, a significant portion of the Corporation's investments are classified as "available-for-sale" and are readily redeemable or saleable and can be sold if the need arises.

C) Market risk:

Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices. Investments are carried on the balance sheet at fair value and are exposed to fluctuations in fair value. Changes in unrealized gains (losses) of investments are recorded as other comprehensive income, net of any other than temporary impairments which are recognized immediately in net earnings, and net of tax. Market risk comprises the following two types of risk:

Currency risk: Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign rates. The Corporation manages currency risk through its investment policies by restricting foreign investments to US securities and placing limitations on securities denominated in US dollars. Realized gains and losses on US securities are recognized in earnings during the current period in Canadian dollars. Unrealized gains and losses on US securities are included in other comprehensive income in Canadian dollars, net of tax.

Interest rate risk: Interest rate risk relates to the possibility that fixed income investments will change in value due to future fluctuations in market interest rates. As fixed income investments are carried at their fair value, the carrying value of investments has exposure to interest rate risk. The Corporation is also exposed to interest rate risk on investment returns on reinvestment following maturity or sale. Fluctuations in interest rates may adversely impact the Corporation's fair value of investments. The Corporation's investment manager monitors duration and repricing risk of fixed income investments.

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.

12. Capital Management

The Corporation's objectives with respect to capital management are to safeguard the entity's ability to continue as a going concern so that it can continue to operate as a deposit insurance provider for the Nova Scotia Credit Unions, including the provision of stabilization funds as needed.

13. Fair Value of Financial Instruments

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 of 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.

The Corporation considers the carrying amount of financial assets and 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

	2017	**2016**
Level 1	**$ —**	$ —
Level 2	**30,109,120**	27,832,002
Level 3	**—**	—
	$ 30,109,120	$ 27,832,002

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 RBC 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.

notes

14. Related Party Transactions

Compensation of key management personnel

The remuneration of directors and key management personnel during the year was as follows:

	2017	2016
Short-term benefits	**$ 209,605**	$ 201,529
Post-employment benefits	**10,124**	12,062
Total salaries and benefits	**$ 219,729**	$ 213,591

The remuneration of directors and key management personnel is determined by the Board of Directors having regard to the performance of individuals and market trends.

Retirement savings plan contributions

The Corporation contributes to retirement savings plans on behalf of all employees. Each employee contributes six percent of earnings and the Corporation matches this contribution. The cost to the Corporation is included in salaries and employee benefits expense (2017 $34,875; 2016 $41,585).

Employee future benefits

The Corporation has a defined benefit plan that provides a retirement benefit to employees. Retiring employees shall receive a retiring allowance of one week's pay for each year of service to a maximum of twenty-eight weeks. The weekly rate of pay for this calculation is based on an average of the employee's best five years of earnings.

Serving the Credit Unions of Nova Scotia

Peer Group 1

East Coast Credit Union
Credit Union Atlantic
Sydney Credit Union
Valley Credit Union
Coastal Financial Credit Union
Cape Breton Credit Union

Peer Group 2

Community Credit Union
Caisse populaire de Clare
Teachers Plus Credit Union
St. Joseph's Credit Union
Victory Credit Union
Acadian Credit Union
New Waterford Credit Union
Glace Bay Central Credit Union
Province Government Employees Credit Union

Peer Group 3

iNova Credit Union
LaHave River Credit Union
New Ross Credit Union
Princess Credit Union
North Sydney Credit Union
Dominion Credit Union
Elegtragas Credit Union
Bay St. Lawrence
Public Service Commission Employees

Mission Statement

To protect depositors by providing an effective and efficient system of deposit insurance and loss prevention by working cooperatively with Credit Unions, Caisses Populaires, Atlantic Central, and the Government of Nova Scotia, through the regulatory powers in the Credit Union Act.

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