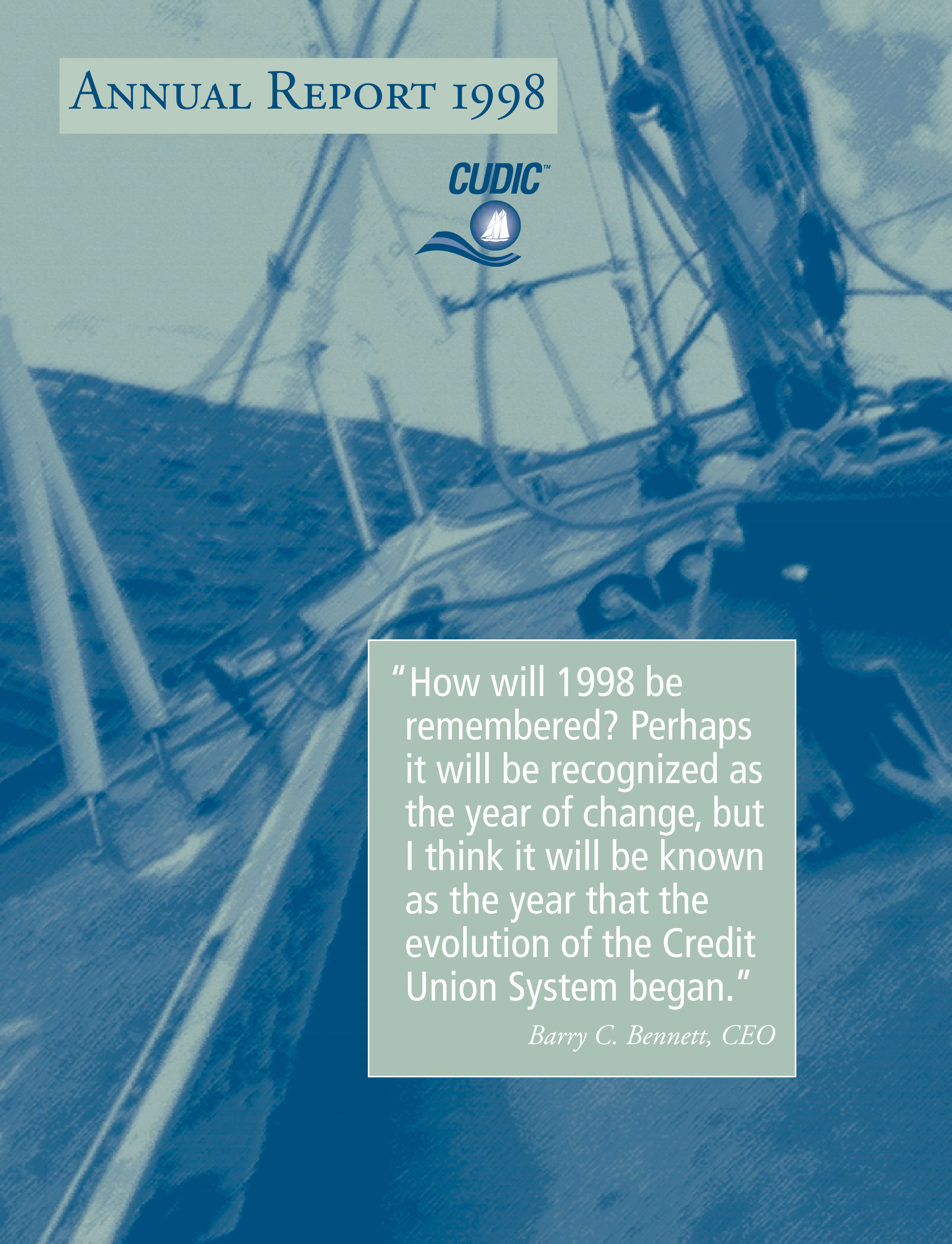
NOVA SCOTIA CREDIT UNION DEPOSIT INSURANCE CORPORATION

CUDIC™

Annual Report 1998

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, Credit Union Central, and the Government of Nova Scotia, through the regulatory powers in the Credit Union Act.



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"How will 1998 be remembered? Perhaps it will be recognized as the year of change, but I think it will be known as the year that the evolution of the Credit Union System began."

Barry C. Bennett, CEO

Nova Scotia
Credit Union Deposit Insurance Corporation

Annual Report
1998

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Report of the Board of Directors

Mike MacNeil
Chair

It is no secret that 1998 was an interesting year for all of us. Rumors of amalgamations, consolidations, eliminations, bank mergers and the like have spread like a wildfire. The financial community had record highs and lows, and we elected a new government in Nova Scotia.

The Nova Scotia Credit Union Deposit Insurance Corporation (CUDIC) on the other hand had a very successful year. Our losses were low and our monitoring system is showing good results. Our equity level reached the 1% target and we relaxed the push we had on to reach this level by 1999. Because of this, the CUDIC Board decided to lower the assessment rate for 1998 to 13 basis points and rebate the money back to the credit unions in order to help them build their equity levels.

A great deal of time was spent in the past year workshopping and fine-tuning our proposal to establish minimum levels of equity for the credit unions. As of June 30, 1998, only 15 credit unions had total equity less than the required 5%, and all of these are working out a plan to build their equity.

The Board of CUDIC has watched closely the development of the National Initiative and the Provincial Business Renewal Initiative and the outcome of the semi-annual meeting in October. As this plan develops and is readied for approval, CUDIC will review the Business Plans to see if they are viable and workable. CUDIC has been meeting with Credit Union Central and the Superintendent's office concerning the initiative and we expect that there will be many more discussions as things develop.

The Board has welcomed two new members in 1998. Father John J. MacDonald and Mr. Donald Barry have joined us and bring to the Board a distinguished background and experience with the Credit Union Movement in Nova Scotia. We look forward to their contribution to our Board. Donald Barry was appointed to complete Janine Saulnier's term, as she had to step down off the Board for personal reasons. We would like to thank Janine for her dedication and commitment to the Board.

One of the Board's goals in 1998 was to learn more about the workings of CUDIC staff and the monitoring system that they have put into place. Half our planning session time was given over to staff to explain their function in the organization and how their position reflects on the workings of CUDIC. This exercise proved to be very rewarding to Board members, especially the newer ones and it gave all of us a greater appreciation of the functions performed and the time lines required to do a good job.

Congratulations to the staff for another outstanding year. Their continued hard work and dedicated performance is reflected in the excellent results that you will read in this annual report.

Respectfully submitted on behalf of the Board of Directors,

Michael J. MacNeil

Michael MacNeil, Chair

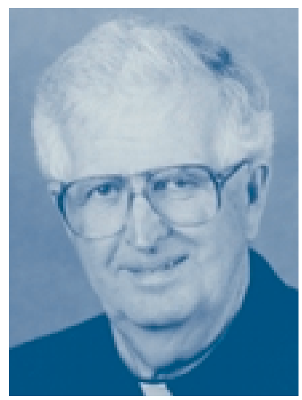
Mary Boyd
Vice Chair

Kay Chisholm
Secretary

David Nunn
Director

Martin MacKinnon
Director

Donald Barry
Director



Father John J. MacDonald
Director

"The Nova Scotia Credit Union Deposit Insurance Corporation (CUDIC)…had a very successful year. Our losses were low and our monitoring system is showing good results. Our equity level reached the 1% target and we relaxed the push we had on to reach this level by 1999."

Report of the Chief Executive Officer

Barry C. Bennett
Chief Executive Officer

How will 1998 be remembered? Perhaps it will be recognized as the year of change, but I think it will be known as the year that the evolution of the Credit Union System began.

There were many memorable events in 1998. The Whistler Forum in May started the process of change. Developing the need to change first identified in Halifax in 1995; the Whistler Forum identified and quantified the issues that the Canadian Credit Union System had to address. To deal with this, Credit Union Central of Canada established a Task Force to investigate the possible options. It evolved two separate but intertwined options — Organization 1 which was the amalgamation of the Provincial Centrals with Canadian Central to form a National Service Entity and Organization 2 which is the formation of a National Cooperative Bank.

This type of initiative was encouraged by several federal government studies that supported the development of a strong second-tier level of financial institutions including the credit union system. Primary among these was the Task Force on the Future of the Canadian Financial Services Sector that is commonly referred to as the MacKay Task Force. It set out 124 recommendations of which several were aimed at strengthening the Credit Union System across Canada.

In Nova Scotia, a special general meeting was held in October and the delegates authorized the preparations of studies to explore the viability of reducing the number of credit unions in Nova Scotia from 55 to somewhere between 4 and 8. It was felt that regardless of the developments on the National level, this consolidation of resources was necessary to ensure a viable future for Nova Scotia Credit Unions. Discussions among interested credit unions are currently underway with business plans to be developed early in 1999.

Turning to the Corporation, we also are working with an era of change. As Chair of the Stabilization Funds of Canada, I worked with a sub-committee to explore the potential impact of the proposed National Initiative changes on our organizations. Although buffered to some extent, these changes, if implemented, will necessitate an examination of the method that deposit protection will be provided to credit union members. We are discussing such topics as harmonized Standards of Sound Business Practices and the feasibility of offering uniform deposit protection coverage across Canada.

From an operational point of view, we again experienced another good year with minimal claims. As a result, the Board decreased assessments to credit unions to 13 basis points for 1998. Although claim history was minimal in the last several years, the Board established a Reserve for Future Losses to prepare for the eventuality that we may have a large claim in the future. During the past number of years, our feedback from the Credit Union System was that claim experience of $500,000 per year or less was a reasonable target. The Board therefore decided to set aside any unused portion of the budgeted claim costs of $500,000 to offset the impact of any future claims in excess of $500,000. This will allow us to maintain a stable assessment rate without causing our equity to drop below 1% of average system assets. The Corporation will continue to monitor this in future years in order to provide sound protection to credit union members with competitive costs to the credit unions.

During 1998, we enhanced our computerized loan review and risk rating program and offered it to other Provincial deposit protection agencies. We also completed the initial version of our computerized monitoring system using direct downloads from League Data. We expect this to be fully operational in 1999. On another front, we began our assessment of the risk associated with the Year 2000 issues and will monitor and work with credit unions to ensure they are Y2K compliant.

Change is a frightening thing for some people, a challenge and an opportunity for others. It is vitally important that all credit union directors and employees address these changes bearing in mind that their ultimate responsibility is to make decisions that are in the best interests of their members. This will not be an easy task but it is extremely important that credit unions go through the process of self-examination and chart a course of progress for the new millenium. We will be there working with you to help smooth some of the obstacles which you may encounter.

I would like to acknowledge the efforts of my staff of dedicated professionals who have made 1998 so successful for us. My thanks to each and every one of you for your support.

Respectfully submitted

Barry C. Bennett

"...It was felt that regardless of the developments on the National level, this consolidation of resources was necessary to ensure a viable future for Nova Scotia Credit Unions."

NSCUDIC staff bottom from left: *Joyce Clarke, Information Management/Accountant; Karen Conrad, Secretary/Receptionist; Beverly O'Quinn, Executive Assistant;* **Top from left:** *Norbert E. Gagnon, Analyst; Barry C. Bennett, C. A., Chief Executive Officer; Vernon H. MacNeill, Analyst; Bernie Beaton, Analyst*

Working with Nova Scotia's Credit Unions

Barry C. Bennett, C. A.,
Chief Executive Officer

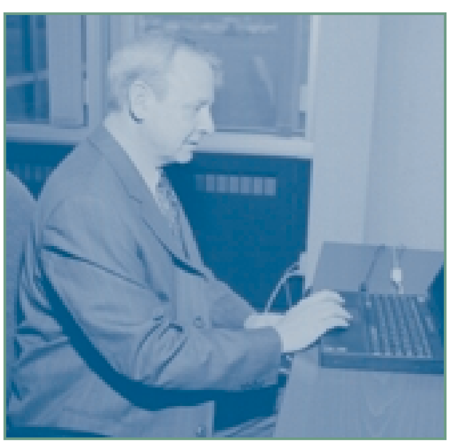
" I would like to acknowledge the efforts of my staff of dedicated professionals who have made 1998 so successful for us. My thanks to each and every one of you for your support."

Barry C. Bennett, CEO

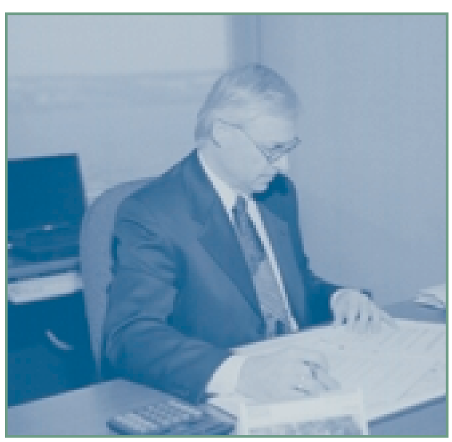
Joyce Clarke, Information Management/Accountant

Karen Conrad,
Secretary/Receptionist

Beverly O'Quinn,
Executive Assistant



Bernie Beaton, Analyst



Norbert E. Gagnon, Analyst

Vernon H. MacNeill,
Analyst

Auditor's Report

To the Members of
Nova Scotia Credit Union Deposit Insurance Corporation

I have audited the balance sheet of Nova Scotia Credit Union Deposit Insurance Corporation as at December 31, 1998 and the statements of income, retained earnings, reserves and changes in cash resources for the year then ended. These financial statements are the responsibility of the corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 1998 and the results of its operations and the changes in its cash resources for the year then ended in accordance with generally accepted accounting principles.

Miles Sweeney

Chartered Accountant

Dartmouth, Nova Scotia
January 28, 1999

Statements of Earnings and Retained Earnings

Year Ended December 31

	1998	1997
Earnings		
Assessments and recoveries (Note 10)	$ 1,202,663	$ 2,070,756
Investment income	570,980	1,055,660
	1,773,643	3,126,416
Expenses		
Operating		
Board and committees	49,760	56,919
Depreciation	40,224	33,401
Insurance	6,977	11,089
Legal	2,088	1,691
Occupancy	46,648	48,301
Office	33,652	36,436
Professional fees	32,216	33,396
Salaries and employee benefits	464,029	440,864
Telephone	13,457	12,025
Travel	83,980	104,364
	773,031	778,486
Conditional grants and loan purchases (Note 11)	447,736	9,956
	1,220,767	788,442
Net earnings	$ 552,876	$ 2,337,974
Retained earnings, beginning of year	7,885,442	5,563,680
Net earnings	552,876	2,337,974
Transfer to shared deductible pool reserve (Note 8)	(24,513)	(16,212)
Retained earnings, end of year	$ 8,413,805	$ 7,885,442

See accompanying notes to the financial statements.

Balance Sheet

December 31

	1998	1997
Assets		
Cash	$ 36,730	$ 80,735
Accounts receivable (Note 3)	115,042	78,989
Investments (Note 5)	10,188,921	10,446,418
Prepaid expenses	13,505	3,807
Capital assets (Note 4)	83,113	69,609
	$ 10,437,311	$ 10,679,558
Liabilities		
Accounts payable and accrued liabilities (Note 6)	$ 720,144	$ 716,694
Unearned revenue (Note 7)	797,101	1,595,674
	1,517,245	2,312,368
Commitments and contingent liabilities (Note 12)		
Equity		
Shared deductible pool reserve (Note 8)	506,261	481,748
Retained earnings	8,413,805	7,885,442
	8,920,066	8,367,190
	$ 10,437,311	$ 10,679,558

On behalf of the Corporation:

Michael J. MacNeil
Director

Mary Boyd
Director

See accompanying notes to the financial statements.

Statement of Changes in Cash Resources

Year Ended December 31

	1998	1997
Cash provided by (used for)		
Operating activities		
Investment income received	$1,066,676	$ 721,521
Assessments and recoveries received	273,064	777,778
Receipts from employees on computer loans	2,282	1,038
Payments to employees and suppliers	(783,664)	(747,360)
Payments for grants and loan purchases	(312,736)	(327,595)
Cash flows provided by operating activities	245,622	425,382
Investing activities		
Purchase of investments (net of proceeds of sale)	(235,899)	(322,405)
Additions to capital assets	(53,728)	(27,968)
Cash flows used for investing activities	(289,627)	(350,373)
Increase (decrease) in cash	(44,005)	75,009
Cash, beginning of year	80,735	5,726
Cash, end of year	$ 36,730	$ 80,735

See accompanying notes to the financial statements.

Notes to the Financial Statements

December 31, 1998

1. Description of business

The Nova Scotia Credit Union Deposit Insurance Corporation is a body corporate established under the Credit Union Act to provide deposit insurance to members of credit unions and to ensure the financial stability of credit unions.

2. Summary of significant accounting policies

The financial statements have been prepared in accordance with generally accepted accounting principles and reflect the following policies:

Investments
Investments are recorded at face value. Premiums or discounts on the acquisition of investments are recorded as investment income in the year of disposal.

Gains or losses realized on investments within the managed investment portfolio are reported as investment income during the year.

Capital assets
Capital assets are stated at cost. Depreciation is provided on the diminishing balance basis. Leasehold improvements are amortized using the straight-line method over the term of the lease.

3. Receivables

	1998	1997
Credit Union assessments	$ -	$ 79
Accrued interest	63,712	66,013
HST	49,654	8,939
Other	1,676	3,958
	$ 115,042	$ 78,989

4. Capital assets

	Cost	Accumulated Depreciation	1998 Net Book Value	1997 Net Book Value	Rates
Furniture and equipment	$ 170,175	$ 106,208	$ 63,967	$ 58,426	20%, 40%
Leasehold improvements	49,415	30,269	19,146	11,183	5 yrs. s.l.
	$ 219,590	$ 136,477	$ 83,113	$ 69,609	

5. Investments

	Weighted Average Interest Rate	Weighted Average Duration (Years)	1998 Cost	1998 Market Value	1997 Cost	1997 Market Value
Credit Union Movement	4.80%	.32	$ 2,686,002	$ 2,686,002	$ 3,450,104	$ 3,450,104
Managed portfolio						
Income	7.07%	4.12	7,000,000	6,888,227	4,000,000	4,154,567
Other			-	-	2,000,000	1,735,766
Accrued income			202,909	202,909	696,304	696,304
Provincial bonds and others	8.12%	.55	300,010	303,768	300,010	305,407
			$ 10,188,921	$ 10,080,906	$ 10,446,418	$ 10,342,148

Notes to the Financial Statements

December 31, 1998

6. Payables and accruals

	1998	1997
Assessment rebates	$ 63,827	$ 194,932
Trade	16,317	16,762
Accrual for unrealized losses (Note 12)	140,000	505,000
Accrual for unidentified losses (Note 9)	500,000	-
	$ 720,144	$ 716,694

7. Unearned revenue

	1998	1997
Prepaid assessment fees	$ 797,101	$ 1,595,674

In accordance with the agreement with the Credit Unions, the amount of $797,101 will be recognized as income in the next fiscal year.

8. Shared deductible pool reserve

The reserve was established to fund a shared deductible pool for directors' liability insurance. The first $5,000 of the claim will be paid by the credit union and any residual, up to a maximum of $95,000, will be paid from the reserve. Income earned on the funds will be credited to the reserve. The Corporation's liability is limited to funds available in the reserve.

During the year, interest income in the amount of $24,513 was transferred to the reserve.

9. Accrual for unidentified losses

The Corporation has recognized an accrual of $500,000 for unidentified future losses, based on historical trends and existing uncertainties. This accrual is calculated as a percentage of system assets. Actual losses could differ from this estimate.

10. Assessments and recoveries

	1998	1997
Special assessments		
Credit Union Central of Nova Scotia	$ -	$ 700,000
Credit unions' assessments - regular	1,063,798	1,149,737
Recovery of conditional grants	138,865	221,019
	$ 1,202,663	$ 2,070,756

11. Conditional grants and loan purchases

	1998	1997
Conditional grants paid and accrued in the year		
George Washington Carver Credit Union	$ 82,741	$ -
Sharon St. James Credit Union	4,562	-
Victory Credit Union	-	7,500
	87,303	7,500
Loan purchases made during the year		
Heritage re: Tidal Credit Union	-	3,213
Louisdale re: North Isle Madame Credit Union	106,364	-
Margaree Credit Union	-	19,051
Strait Area Credit Union	30,000	3,855
Valley Credit Union	89,069	246,337
	225,433	272,456
Total conditional grants and loans purchases	312,736	279,956
Increase (decrease) in accruals for claims considered likely under commitments	(365,000)	(270,000)
Increase in accrual for unidentified losses (Note 9)	500,000	-
	$ 447,736	$ 9,956

12. Commitments and contingent liabilities

(i) Commitments in effect at December 31, 1998

The Corporation has provided protection to credit unions so they will not suffer losses on loans acquired in certain amalgamations, or as part of a deficit funding agreement. As at December 31, 1998, the Corporation has outstanding commitments in the amount of $663,276. Of this amount, $140,000 has been accrued in these financial statements and represents management's best estimate of the likely liability under these commitments. The liability, if any, associated with the remaining identified problem accounts of $523,276 is not determinable at this time.

(ii) Lease commitments in effect at December 31, 1998

The Corporation is committed to pay annual lease payments for its premises and vehicles for the next year as follows:

1999	$ 57,476

13. Income tax losses carried forward

The Corporation has 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:

1999	$ 532,890
2000	310,406
2001	204,476
2005	170,053
	$ 1,217,825

During the current year, $502,308 of income tax losses carry forward have expired.

Notes to the Financial Statements

December 31, 1998

14. Comparative amounts

The comparative amounts in these financial statements were reported on by other auditors. Certain amounts have been restated to conform with this year's basis of presentation.

15. Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using the year 2000 dates is processed. In addition, similar problems may arise in some systems, which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure, which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

The corporation has implemented a program to correct identified internal systems that may be affected.

Board of Directors

Mike MacNeil, Chair
Irish Cove

Mary Boyd, Vice Chair
Halifax

Kay Chisholm, Secretary
Antigonish

Father John J. MacDonald
D'Escousse

Donald Barry
Antigonish

David Nunn
Dartmouth

Martin MacKinnon
Halifax

Staff

Barry C. Bennett, CA
Chief Executive Officer

Norbert E. Gagnon
Analyst

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Joyce A. Clarke
Information Management/Accountant

Beverly O'Quinn
Executive Assistant

Karen Conrad
Secretary/Receptionist

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