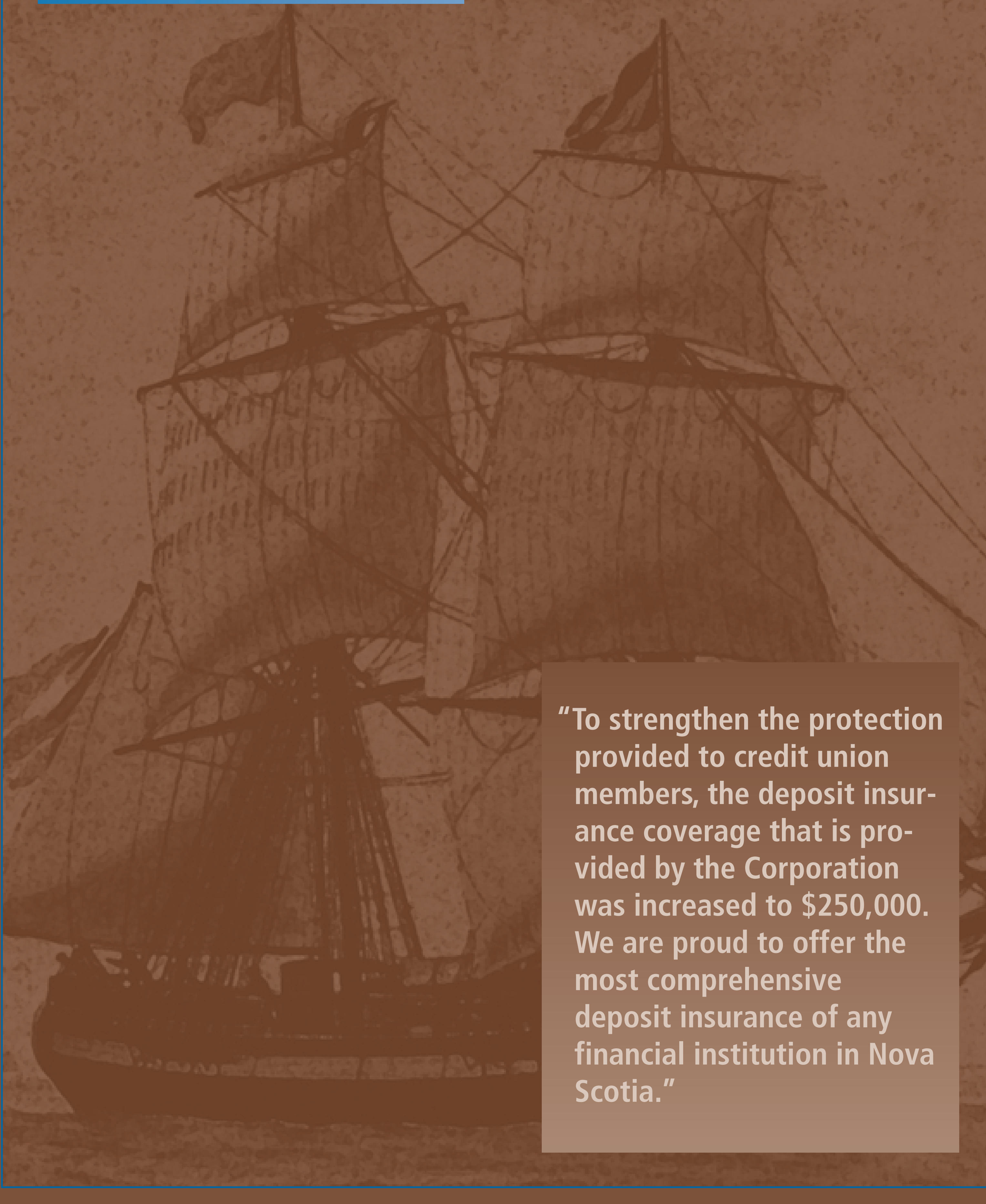
Annual Report 1999

CUDIC™



"To strengthen the protection provided to credit union members, the deposit insurance coverage that is provided by the Corporation was increased to $250,000. We are proud to offer the most comprehensive deposit insurance of any financial institution in Nova Scotia."

Nova Scotia
Credit Union Deposit Insurance Corporation

Annual Report

1999

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Report of the Board of Directors

Michael J. MacNeil
Chair

Michael MacNeil retired from government services in June 1994 as Vice-Principal of a provincial community college. His Credit Union/Co-operative volunteering started in high school when he was asked to serve on the education committee for the local credit union. He soon became a board member, chapter secretary, and chair and served nine years on Credit Union Central of Nova Scotia's Board. On the home credit union scene, there was a need for a manager and he operated a part-time credit union out of his house for twelve years. He served on district, regional and national Credit Union Insurance Advisory Committees and has served on the Board of the Nova Scotia Co-operative Council.

Well, we have made it to the millennium! For the past several years we have heard all the messages and warnings about life as we knew it. A new year generally causes us to reflect on the old year and yes, probably make a few resolutions. But the turn of a century gives one a unique opportunity for reflection, on where we have come from and where we may be going.

The Nova Scotia Credit Union Deposit Insurance Corporation (CUDIC) was established on January 1, 1995. A Board of seven was appointed in February 1995 and a new approach to Stabilization and Deposit Insurance in Nova Scotia began.

The first order of business was a change in the classification of intervention and the establishment of Standards of Sound Business and Financial Practices. These changes led to better operational practices and procedures and a plan for action.

The experiences gained by the new practices led to the need for a more enhanced monitoring system in order to process information in a more timely fashion. A great deal of time and effort was put into the development of our own computerized monitoring program which is the core of our operation today. Negative trends are identified as early as possible and credit union managers are alerted in order that corrective action can be taken immediately. Loan reviews became a vital tool in the assessment of lending practices and procedures in credit unions. Our experience has proven that a good loan portfolio is necessary to have a strong credit union.

The CUDIC Board has listened to the concerns of the credit unions and we are attempting to keep the assessment rate as low as possible.

Joint meetings with Credit Union Central and Government have been ongoing through the past year as we deal with concerns facing the Movement in our province. It is paramount that we continue to work together for the benefit of all stakeholders.

Work is in progress to reaffirm our agreement on Roles and Responsibilities between Credit Union Central and CUDIC. Discussions to date indicate that consensus has been reached which will enhance communication and better establish respective roles for each organization.

For the future, it is difficult to look too far down the road because our credit unions are exposed to many variables. To name a few, we have to be mindful of declining economic circumstances in some parts of the province, stronger competition with other financial institutions, inflationary threats, and restructuring trends nationally. It is safe to say that the CUDIC Board is looking at the least cost way of funding credit unions in difficulty as well as ways to enable all credit unions to reach the 5% equity level set out by the Credit Union Act.

For the present and with respect to operations, Barry Bennett, our CEO, is on medical leave. Arrangements have been made within the office to carry on during his absence. Vernon MacNeill is carrying out the CEO's duties and other staff members have taken on added responsibilities.

We were happy to welcome one new Board member in the past year. Pat Moore joined us in July. Pat comes to us with experience obtained by working on the Board of Sydney Credit Union and management training and experience with Devco. We look forward to working with him.

Last, but not least, we would like to congratulate staff on having achieved another successful year. A great deal of time and effort went into the preparation of additional reports for the Board, as well as adjusting to Barry's absence.

As we enter the new millennium, it is important that we work even more closely together to strengthen the Movement for the good of all.

Respectfully submitted on behalf of the Board of Directors.

Michael J. MacNeil

Michael J. MacNeil, Chair

Mary M. Boyd
Vice-Chair

Mary Boyd is a chartered accountant and a sole practitioner in public accounting in Halifax. She focuses her practice on small owner-managed businesses and not-for-profit organizations. In her former employment, she was involved in auditing credit unions. She has actively served on the boards of several community organizations.

Martin MacKinnon
Secretary

Martin MacKinnon has been a board member since 1997. He has been involved with the Credit Union System for almost 25 years. In 1976, he was a loans officer with Telephone Workers Credit Union in Saint John, NB, and from 1977 to 1986 the manager of Port Hawkesbury Credit Union. He received his Masters of Business Administration from Saint Mary's University. His masters thesis was based on a review of the Nova Scotia Credit Union System.

Mr. MacKinnon was the Director of Corporate Development and involved with a major Maritime hotel chain. He is presently Director of Finance and Administration of Eastern Rehabilitation Inc., which operates in Nova Scotia and New Brunswick. In addition, to CUDIC, Mr. MacKinnon is Treasurer of Atlantic Institute for Market Studies, and is past director of Atlantic Broadcasters Limited.

Donald A. Barry

Donald Barry is a graduate of St. Francis Xavier University with a Bachelor of Arts degree and a Masters degree in Adult Education. From 1977 to 1986, he served on the Board of Bergengren Credit Union, Antigonish, as a director and Chair. He was also a member of the Board of Directors of Braemore Co-operative. From 1987 to 1998, he served as a director and Chair of Credit Union Central of Nova Scotia and its affiliated companies. He worked for twelve years as a Field Representative and later as Director of Public Relations for The Nova Scotia Credit Union League. He served for seventeen years with the Provincial Government as a Regional Representative of Adult Education and is now retired. Donald is active in a number of local organizations in Antigonish where he resides.

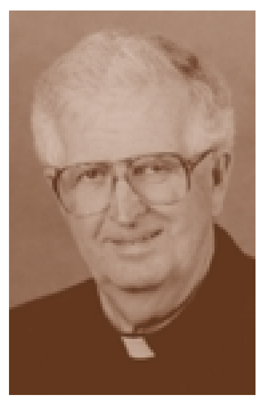
Kathleen Chisholm

Kathleen Chisholm is retired from the Federal Government as an Information Clerk with Income Security Programs working with Canada Pension Plan, Old Age Security and Family Allowance. Previous to that she worked with the Office of Inspector of Schools, Department of Education. She is currently serving on the Review Tribunals Board of Canada Pension Plan Disability Benefits. She has served for twelve years as Town Councilor for the Town of Antigonish; six of which were as Deputy Mayor.

"It is safe to say that the CUDIC Board is looking at the least cost way of funding credit unions in difficulty…"

Patrick Moore

Patrick Moore is currently involved in the off-shore gas industry as a management consultant. Prior to this he was employed as Manager of Information Technology with the Cape Breton Development Corporation. His education includes a degree in Business Administration. He is past president of Sydney Credit Union and has served in various volunteer efforts in his community.

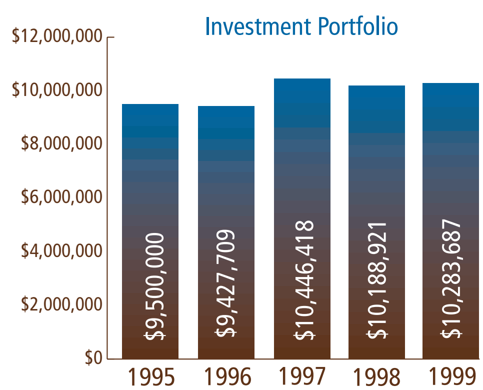


Father John J. MacDonald

Father J. J. MacDonald is a graduate of St. Francis Xavier University with a Bachelor of Arts and a Bachelor of Theology from Holy Heart Seminary. He has been associated with the Co-op Movement for several decades. He is a former member and President of Credit Union Central of Nova Scotia, is a past director of the former Stabilization Fund Board and was a member of the Co-operators Insurance Company of Canada Board for two decades. He served as a board member for seven years of CDSL Data Co. and he was Chair of the Co-operators Investment Committee for several years. He is now retired from the active ministry and living in D'Escousse.

Report of the Chief Executive Officer

Barry Bennett
CEO



1999 was a year of preparation for the new millennium. The entire globe put a concentrated effort towards dealing with the potential risk presented by the Year 2000 (Y2K) problem. Here in Nova Scotia, the credit union system took the potential problem seriously. Significant time and effort was expended to ensure its readiness for the Y2K rollover. The transition went smoothly without any difficulty. All involved, boards, management, and staff are to be congratulated for their effort in exercising due diligence to safeguard the system against potential Y2K problems.

The Deposit Insurers and Stabilization Funds of New Brunswick, Nova Scotia and Newfoundland met twice during 1999 in an effort to harmonize the Sound Business and Financial Practices for all credit unions in the Atlantic Provinces. This included the introduction of General Standards of Corporate Governance for all credit unions. To assist credit unions in meeting the Corporate Governance Standard, credit unions will be able to reference a Self-Assessment Questionnaire, which will accompany the Credit Union Self-Assessment Report (CUSAR). The credit unions may then be required to provide the CUSAR to their Insurer/Stabilization Fund annually. Our Sound Business Practices Advisory Committee met in October to review and provide feedback on the proposed General Standards of Corporate Governance and revised Standards of Sound Business and Financial Practices which were consolidated in a manual. During 2000, the Insurers/Stabilization Funds from the three Atlantic Provinces plan to provide the manual to all their respective credit unions for feedback before it is finalized and implemented.

As stated in its mission statement, the Nova Scotia Credit Union Deposit Insurance Corporation's (CUDIC or the Corporation) role is 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 of the Credit Union Act. To strengthen the protection provided to credit union members, the deposit insurance coverage that is provided by the Corporation was increased to $250,000. We are proud to offer the most comprehensive deposit insurance of any financial institution in Nova Scotia.

Continuous improvements are being made to our monitoring systems and review programs. In 1999, the Corporation performed 20 on-site reviews of various natures on lending practices in credit unions. These encompassed first time full loan reviews, new management reviews, recent lending, follow ups, and allowance for impaired loan reviews. As part of our loss prevention programs, we plan to develop and implement an internal control review program in the year 2000. As well, our monitoring system will continue to be enhanced and will provide additional beneficial information for the early identification of potential problems in the System. Some of these reviews were conducted jointly with the staff of the Superintendent's office and I would like to thank them for participating in this groundbreaking cooperation between our offices. We look forward to expanding and coordinating the efforts of both offices in our effort to safeguard the members of credit unions.

Amalgamations and closures have become common phenomena within the financial industry in the last three to five years. Two credit unions, namely Amherst Credit Union and Colchester Credit Union amalgamated after several months of discussion to form the new Community Credit Union of Cumberland Colchester Limited effective January 1, 2000. We offer our congratulations to credit unions for taking this initiative and wish them every success in the future. As competition increases in the financial industry, we encourage every credit union to assess their situation and explore the feasibility of amalgamation to develop the economic base to survive.

After struggling for several years to

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remain viable in a rapidly changing marketplace, the Board of Directors of Telco Credit Union and River Hebert Credit Union determined it was in the best interest of its members to terminate their operations. Thus, the Superintendent of Credit Unions was asked to place them under Supervision and appoint CUDIC as liquidator. This process began in November. The Boards are commended for making this difficult decision and we appreciate all the assistance and cooperation given to us by both the Boards and their staff.

The Corporation enjoyed a very good year in 1999 and again experienced no claims. The Corporation established an accrual of $35,000 for claims considered likely under commitments made in the liquidation of Telco Credit Union and River Hebert Credit Union. We also increased our Reserve for Future Losses (started in 1998) to $527,500 (increase of $27,500). This is an accrual established for unidentified future losses. It allows us to maintain a stable assessment rate without causing our equity to drop below 1% of average system assets. As in 1999, we foresee being able to maintain the rate of assessment for 2000 at 0.14% (14 basis points) based on average assets from October 1, 1999 to September 30, 2000.

For the most part, credit unions in Nova Scotia have been successful. However, because of the substantial increase needed to the allowance for impaired loans in our largest credit union, the Corporation's Board of Directors approved a conditional grant of $600,000 on our financial statements. The Board, Management and Staff of the Corporation and the Credit Union are working together jointly with Credit Union Central and the Superintendent's Office to address the weaknesses within the operation, which led to the deficit. Improvements in the operation are already evident.

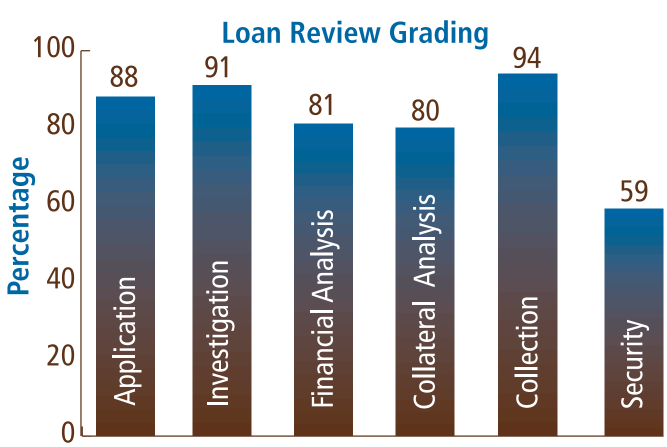
The new millennium will certainly present new challenges. By working cooperatively with all stakeholders, we will meet these challenges head-on. The stronger the credit unions are, the stronger the System as a whole will be.

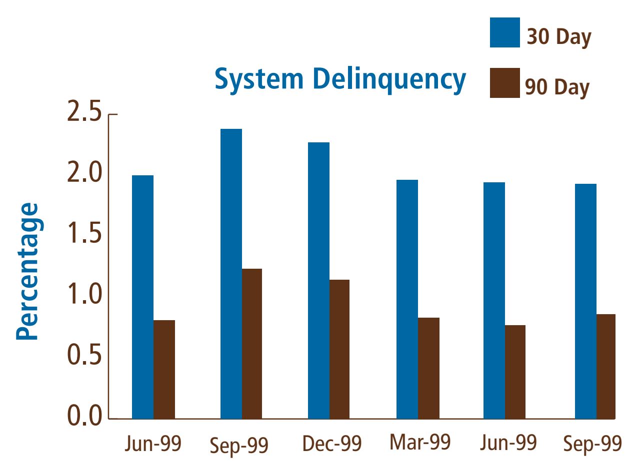
I acknowledge the efforts, dedication and professionalism demonstrated by my staff throughout 1999. I thank each and every one of you for your support and contributions to a successful year.

Respectfully submitted,

Vernon MacNeill

Vernon MacNeill, Acting CEO
On behalf of Barry C. Bennett, CEO





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, 1999 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, 1999 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

Dartmouth, Nova Scotia
February 11, 2000

Chartered Accountant

Statement of Earnings and Retained Earnings

Year Ended December 31	1999	1998
Earnings		
Assessments and recoveries (Note 10)	$ 1,358,163	$ 1,202,663
Investment income	527,648	570,980
Gain on sale of vehicles	16,843	-
	1,902,654	1,773,643
Expenses		
Operating		
Board and committees	74,948	49,760
Depreciation	44,017	40,224
Insurance	10,754	6,977
Legal	6,021	2,088
Occupancy	47,062	46,648
Office	50,642	33,652
Professional fees	36,218	32,216
Salaries and employee benefits	500,269	464,029
Telephone	12,568	13,457
Travel	100,937	83,980
	883,436	773,031
Conditional grants and loan purchases (Note 11)	662,500	447,736
	1,545,936	1,220,767
Net earnings	$ 356,718	$ 552,876
Retained earnings, beginning of year	8,413,805	7,885,442
Transfer to shared deductible pool reserve (Note 8)	(20,690)	(24,513)
Retained earnings, end of year	$ 8,749,833	$ 8,413,805

See accompanying notes to the financial statements.

Balance Sheet

December 31	1999	1998
Assets		
Cash	$ 65,385	$ 36,730
Accounts receivable (Note 3)	189,962	115,042
Investments (Note 5)	10,283,687	10,188,921
Prepaid expenses	8,566	13,505
Capital assets (Note 4)	60,040	83,113
	$ 10,607,640	$ 10,437,311
Liabilities		
Accounts payable and accrued liabilities (Note 6)	$ 1,330,856	$ 720,144
Unearned revenue (Note 7)	-	797,101
	1,330,856	1,517,245
Commitments and contingent liabilities (Note 12)		
Equity		
Shared deductible pool reserve (Note 8)	526,951	506,261
Retained earnings	8,749,833	8,413,805
	9,276,784	8,920,066
	$ 10,607,640	$ 10,437,311

On behalf of the Board

Michael J. MacNeil Director   Mary Boyd Director

See accompanying notes to the financial statements.

Statement of Changes in Cash Resources

Year Ended December 31	1999	1998
Cash provided by (used for)		
Operating activities		
Investment income received	$ 506,188	$ 1,066,676
Assessments and recoveries received	482,145	273,064
Receipts from vehicle sales	16,843	-
Receipts from (payments to) employees on computer loans	(1,011)	2,282
Payments to employees and suppliers	(778,829)	(783,664)
Payments for credit union advances	(130,500)	-
Payments for grants and loan purchases	-	(312,736)
Cash flows provided by operating activities	94,836	245,622
Investing activities		
Purchase of investments (net of proceeds of sale)	(45,238)	(235,899)
Additions to capital assets	(20,943)	(53,728)
Cash flows used for investing activities	(66,181)	(289,627)
Increase (decrease) in cash	28,655	(44,005)
Cash, beginning of year	36,730	80,735
Cash, end of year	$ 65,385	$ 36,730

See accompanying notes to the financial statements.

Notes to the Financial Statements

December 31, 1999

1. Description of business

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 inquires in relation to credit unions, place limitations on the lending activities and loan policies of a credit union, issue directives (in consultation with Credit Union Central of Nova Scotia and the Superintendent of Credit Unions of Nova Scotia), and act as liquidator of a credit union.

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
Furniture, equipment and leasehold improvements are depreciated over their useful lives as follows:

Furniture	20% diminishing balance basis
Computer equipment	40% diminishing balance basis
Leasehold improvements	3 years straight-line basis

Credit risk
The Corporation is subject to credit risk from its holdings in investments. The Corporation minimizes its risk by investing in high quality financial instruments and by limiting the amount invested in any one counterparty.

3. Accounts Receivable

	1999	1998
Credit Union advances	$ 130,500	$ -
Credit Union assessments	15,037	-
Accrued interest	35,644	63,712
HST	6,026	49,654
Other	2,755	1,676
	$ 189,962	$ 115,042

Notes to the Financial Statements

December 31, 1999

4. Capital assets

	Cost	Accumulated Depreciation	1999 Net Book Value	1998 Net Book Value
Furniture and equipment	$ 194,846	$ 134,806	$ 60,040	$ 63,967
Leasehold improvements	45,687	45,687	-	19,146
	$ 240,533	$ 180,493	$ 60,040	$ 83,113

5. Investments

	Weighted Average Interest Rate	Weighted Average Duration (Years)	1999 Cost	1999 Market Value	1998 Cost	1998 Market Value
Credit Union Movement	4.94%	.79	$ 2,431,250	$ 2,431,250	$ 2,686,012	$ 2,686,012
Managed portfolio						
Income	6.28%	3.88	7,600,000	7,701,402	7,000,000	6,888,227
Accrued income			252,437	252,437	202,909	202,909
Provincial bonds and others			-	-	300,000	303,758
			$ 10,283,687	$ 10,385,089	$ 10,188,921	$ 10,080,906

6. Payables and accruals

	1999	1998
Assessment rebates	$ -	$ 63,827
Trade	28,356	16,317
Accrual for unrealized losses (Note 12)	175,000	140,000
Accrual for deficit funding (Note 12)	600,000	-
Accrual for unidentified losses (Note 9)	527,500	500,000
	$ 1,330,856	$ 720,144

7. Unearned revenue

	1999	1998
Prepaid assessment fees	$ -	$ 797,101

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 $20,690 was transferred to the reserve.

9. Accrual for unidentified losses

The Corporation has recognized an accrual of $527,500 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

	1999	1998
Credit unions' assessments - regular	$ 1,227,979	$ 1,063,798
Recovery of conditional grants	130,184	138,865
	$ 1,358,163	$ 1,202,663

In 1999 the assessment rate was 0.14%, based on average assets for the period October 1, 1998 to September 30, 1999. In 1998 the assessment rate was 0.13%.

11. Conditional grants and loan purchases

	1999	1998
Conditional grants paid and accrued in the year		
George Washington Carver	$ -	$ 82,741
Sharon St. James	-	4,562
Credit Union Atlantic	600,000	-
	600,000	87,303
Loan purchases made during the year		
Louisdale re: North Isle Madame Credit Union	-	106,364
Strait Area Credit Union	-	30,000
Valley Credit Union	-	89,069
	-	225,433
Total conditional grants and loan purchases	600,000	312,736
Increase (decrease) in accruals for claims considered likely under commitments	35,000	(365,000)
Increase in accrual for unidentified losses (Note 9)	27,500	500,000
	$ 662,500	$ 447,736

12. Commitments and contingent liabilities

(i) Commitments in effect at December 31, 1999

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, 1999, the Corporation has outstanding commitments in the amount of $485,538. Of this amount, $175,000 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 $310,538 is not determinable at this time.

The Corporation is also committed to the provision of assistance in the amount of $600,000 to Credit Union Atlantic Limited to fund its accumulated deficit at December 31, 1999. This amount has been accrued in these financial statements and represents management's best estimate of the likely liability under this commitment.

Notes to the Financial Statements

December 31, 1999

(ii) Lease commitments in effect at December 31, 1999

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

2000	$ 67,272
2001	69,957
2002	72,642
2003	61,668
2004	40,946
	$ 312,485

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:

2000	$ 310,406
2001	204,476
2005	170,053
2006	298,686
	$ 983,621

During the current year, $532,890 of income tax losses carried forward have expired.

14. 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. Although the change in date occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the entity, including those related to the efforts of customers, suppliers, or other third parties, have been fully resolved.