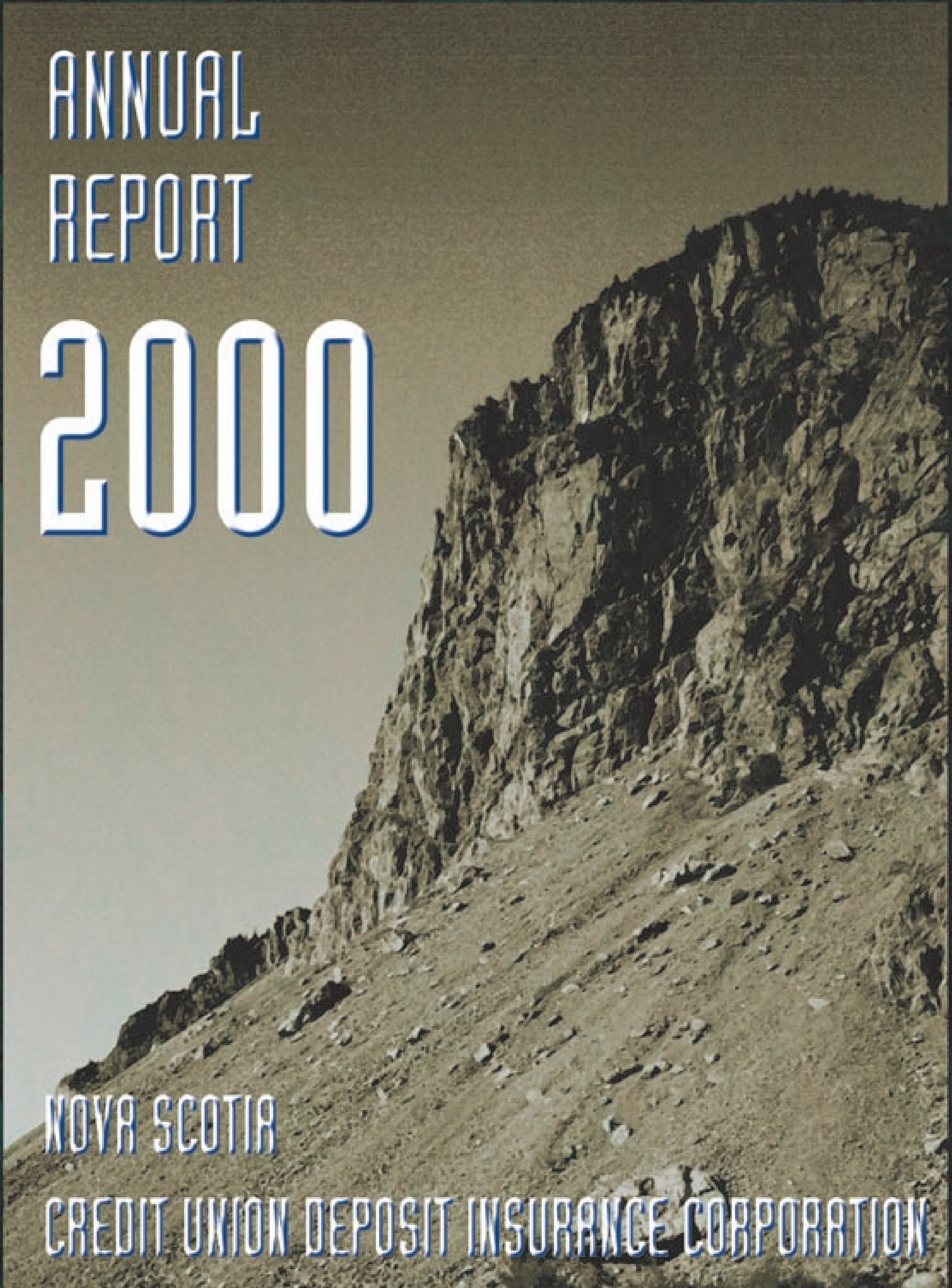
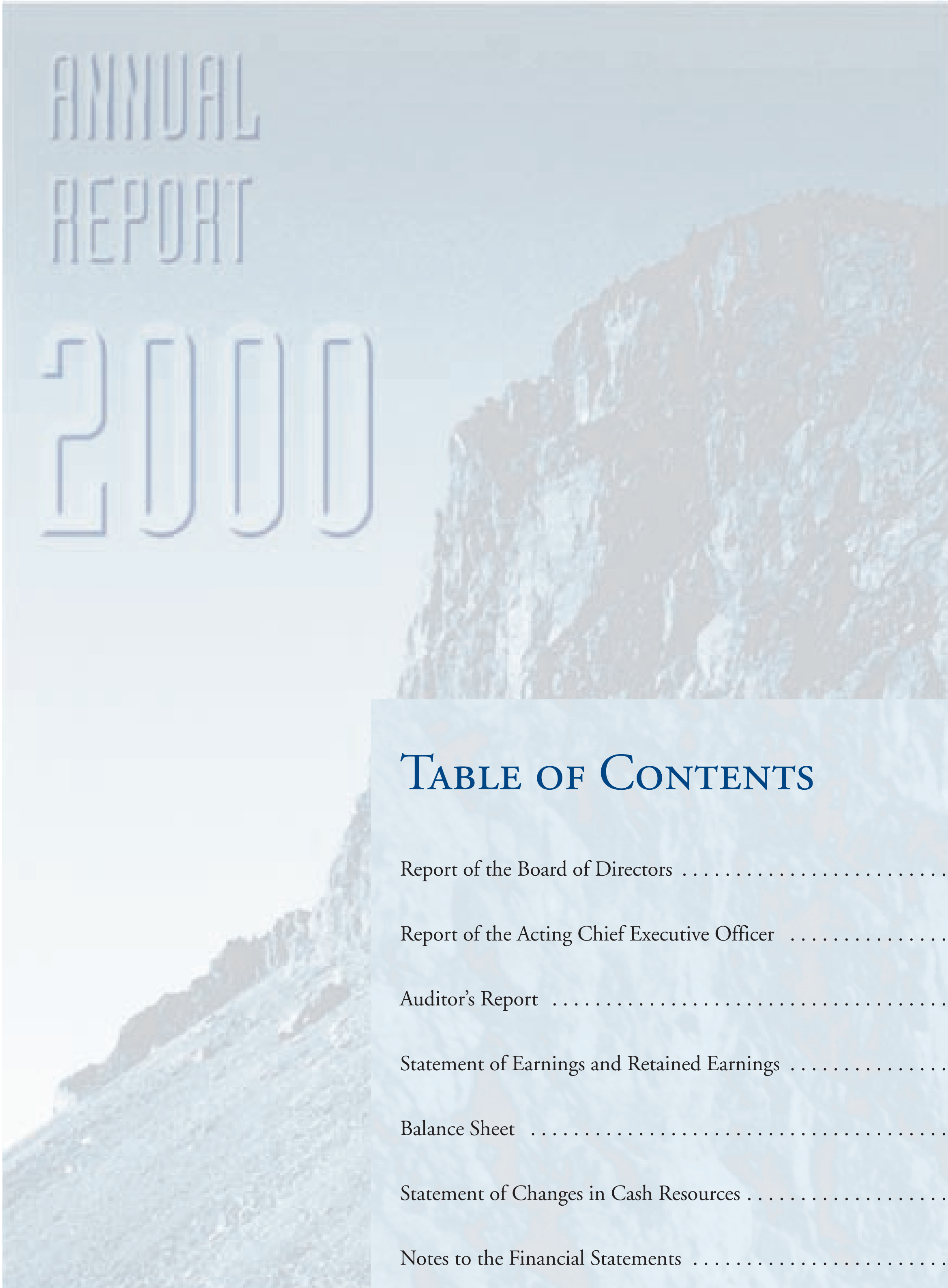
ANNUAL REPORT 2000



NOVA SCOTIA CREDIT UNION DEPOSIT INSURANCE CORPORATION

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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Report of the Board of Directors

Michael J. MacNeil
Chair

Just as each of us entered the new millennium by reviewing the last years of the last century as a basis of moving forward, so did Nova Scotia Credit Union Deposit Insurance Corporation (CUDIC). The year 2000 marked its sixth year of operation; time for the Board to review accomplishments, identify strengths and weaknesses and establish a strategic planning process. We will accomplish that process over the next three years. This year's two day planning session set out our major objectives. As a result, the Board will focus on specific results in the following areas:

Risk Assessment
Risk Management
Communications
Succession Planning
Information Sharing

Risk Assessment is the most important task of CUDIC. To date loan reviews have been the main focus when assessing a credit union. In the next year, CUDIC will start to apply a system to identify other risks to credit unions that should also be flagged and reviewed.

Once the risks are identified, a management procedure serves to monitor the process providing continuous updates for the Board to determine necessary action.

Improved communication centers on information sessions about credit union operations at regularly scheduled meetings with government and Credit Union Central, at meetings with credit union boards and through various avenues of contact with credit union members and the general public.

The need for succession planning became an important matter early in the year when Barry Bennett, our CEO, was away from work because of illness. The Board took interim measures prompting a need to have a formal plan ready for deployment when required.

As we met with government and Credit Union Central it became evident that information sharing is a vital part of our everyday operations. Often each organization requires the same data. Duplication does exist among our organizations. The Board will ensure that agreements now in place are followed and that new avenues are established for sharing information.

These objectives coupled with three well established measures: an effective monitoring system, sound business practices, and advisories, are designed to place CUDIC in a position to accurately assess risk and respond to problems in a timely manner.

The Board has been concerned for some time about the organization's increasing operating costs. Extra time was spent this year reviewing budgets and establishing new benchmarks. The Board is pleased to report that we did come in under budget for the year 2000 and were able to reduce the budgeted assessment rate by 2 basis point (bps) or 14%.

This marks the end of another year without claims on the fund. This reflects an effective, efficient system. It is important to note that loan delinquency in the province has

Front Row from left: Irene Lefort, Michael MacNeil (Chair), Joseph Kennedy.
Back row, from left: Father J.J. MacDonald, Patrick Moore (Vice-Chair), Mary Boyd (Secretary), Donald Barry.

declined in the past year.

We are pleased to report on a review of our agreement with Central on Roles and Responsibilities. Changes were made to have the two organizations work closer together and share resources. The new agreement clears the way for both parties to support each other.

There were some changes to the composition of the CUDIC Board in 2000. Kay Chisholm and Martin MacKinnon left the Board after years of dedicated service. Kay served on the Board since the establishment of CUDIC in 1995 and Martin served for over three years. New to the Board in 2000 were Irene Lefort of Antigonish and Joe Kennedy of Fall River. Both Irene and Joe bring with them many years of credit union experience and both are strong supporters of the credit union philosophy. The Board welcomes both Joe and Irene and looks forward to working with them.

Clear objectives and careful plans are only achieved through diligent staff. CUDIC's staff is energetic and dedicated. This year was particularly challenging and in all respects the staff met and exceeded the challenge.

In closing, we want to acknowledge the contribution made to the credit union movement by volunteers. The movement would not exist without volunteers. Every level of a credit union depends on volunteers to oversee the operation. From committees to boards, we depend on dedicated individuals to perform tasks that require time, training, and commitment. Their contribution must never go unrecognized.

Respectfully submitted on behalf of the Board of Directors,

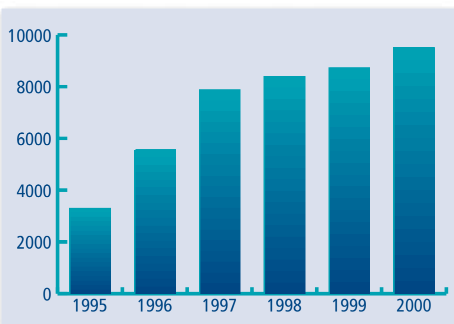
Michael J. MacNeil

Michael MacNeil, Chair

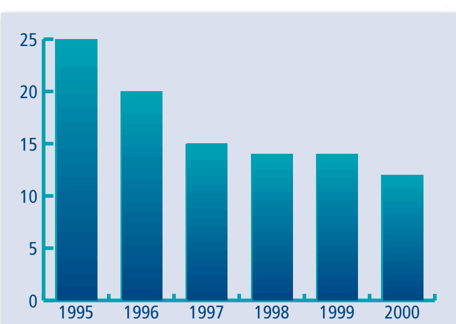
Report of the Acting Chief Executive Officer

Vernon H. MacNeill
Acting
Chief Executive Officer

FUND SIZE
($000)



ASSESSMENT RATES
(BPS)



Financial Highlights

I am pleased to report that the Nova Scotia Credit Union Deposit Insurance Corporation (CUDIC) enjoyed another successful year in 2000 and continues to build the deposit insurance fund. As at December 31, 2000, equity in the Corporation stood at $9.5 Million, which is net of the $555,942 held in the shared deductible pool for credit unions. This equity represents slightly less than 1% of the unaudited system assets of $969 Million.

Although we reduced the assessment rate from 14 basis points (bps) to 12 bps, income was down by only $88,911. By reducing the assessment rate, approximately $200,000 was left in the hands of credit unions. Recoveries on past funding to credit unions continue to exceed $100,000 per annum. Much of the recovery in 2000 was attributed to Strait Area Credit Union Limited repaying past dividend assistance grants.

Our investment portfolio continued to grow to the $10.6 Million reported at year-end. The returns earned on both the funds maintained at Credit Union Central of Nova Scotia (CUCNS) and within our managed portfolio improved over 1999. The return on our Central investments improved by 60 bps to 5.54% while an increase of 21 bps to 6.49% was achieved on the managed portfolio. This is an important component of our operation as every dollar earned through investment income is potentially a dollar in reduced assessments.

Operating expenses increased by $190,171 but still came in under the approved budget. The largest component of the increase was an accrual made due to the uncertainty surrounding the return of an employee from medical leave. We also saw an increase in Board and Committee expenses in 2000 as five additional meetings were held. Additionally, contract employees were utilized to help improve the quality and number of loan reviews conducted. A concerted effort was made by all staff to ensure that money was spent efficiently.

No additional monies were expensed for potential claims and in fact we reversed $61,157 that had previously been set aside. Net income for the year was $801,292, representing an improvement of $444,574 over 1999.

Loan Reviews

CUDIC completed twenty-one loan reviews in 2000 compared to seventeen in 1999. The increase resulted from the ability to utilize contract personnel, which enhanced the scheduling and response times for special situations. Three of the reviews were undertaken to help facilitate amalgamations.

There were eight credit unions requiring follow-up reviews, the majority of which showed improved underwriting. The overall results for all reviews conducted in 2000 also showed improved underwriting over results from 1999.

The loan reviews for 2000 placed increased emphasis on the internal audit procedures of internal/suspense accounts and the lend-

Front Row from left: Norbert E. Gagnon, Vernon H. MacNeill, Karen Conrad.
Back row, from left: Beverly O'Quinn, Bernie Beaton, Rick Harris, Joyce A. Clarke.

ing area within the credit unions.

Generally, there were common weaknesses identified which needed to be addressed in most of the credit unions. A number of credit unions have contacted CUCNS to perform operational reviews to improve areas identified by our reviews as requiring strengthening.

For 2001, the number of loan reviews will be very similar to 2000 but will encompass more elements of risk management and internal controls. The schedule will include eleven credit unions that have not previously been reviewed by CUDIC.

Monitoring System

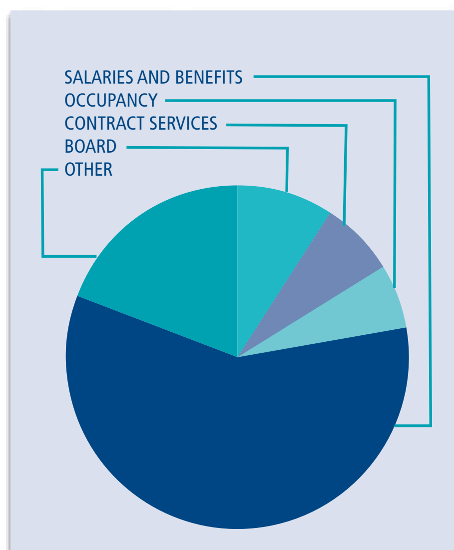
Over the past several years, the Corporation has developed and implemented a comprehensive monitoring system. Utilizing a monthly download of the credit union's financial information obtained from League Data, our monitoring program generates monthly/quarterly system statistics and trending reports based on key performance indicators. The information is then used to analyze credit union performance.

Comparisons of the key indicators to the industry standards are also analyzed and flags are raised when areas of risk are identified.

This information alerts the Corporation to possible problems that may be occurring in a credit union, and enables the Corporation to work proactively with the credit union to enhance its performance.

We are pleased to report that since the 1996 implementation of the monitoring of loan delinquency and the monthly follow up by the Corporation of the unacceptable trends, there has been a substantial decrease in the System delinquency. It has been noted that the credit union practices and procedures are improving in administrating the collection function and they are intervening at a much earlier stage to resolve problems.

CUDIC OPERATING COSTS
(Percent)



During 2000, the Corporation prepared an extensive report for the Board on the Demographics of the Loans and Deposits of the individual credit unions with comparisons to system average. The report proved to be extremely informative in identifying potential risks associated with an aging population.

Communication With Stakeholders

Developing an effective communication strategy with stakeholders and the general public was one of the key priorities in developing the framework of CUDIC's three year strategic plan. While CUDIC has always placed importance on communications, this year we attempted to refine current strategies and set new objectives.

Monthly information meetings were held with management of CUCNS and the office of the Superintendent of Credit Unions. This sharing of information keeps all stakeholders informed of current happenings in the System. CUDIC also continues to share information with credit union managers and staff through Advisories, Standards of Sound Business and Financial Practices, newsletters, and brochures.

The Board and staff are continuously trying to improve the understanding by credit union directors and management of the Corporation's role in the System. In achieving this, CUDIC has prepared an informative presentation outlining our roles and responsibilities. The CUDIC Board will begin giving these presentations at credit union Board meetings in 2001.

Our website was given a new look in 2000. Credit union members and the general public now have easy access to all information pertaining to deposit insurance coverage in Nova Scotia. From our site, you can now link to other deposit insurance sites across Canada and all credit unions on line.

Maintaining a presence at System events both locally and nationally helps ensure open communication and an opportunity for stakeholders to network. By attending Stabilization Funds of Canada meetings, CUDIC has the opportunity to share information with other deposit insurers from across the country and keep current on what is happening in other jurisdictions.

CUDIC Intervention System

As part of its mandate to protect deposits in credit unions against impairment arising from financial losses or insolvency, in 1995, the CUDIC Board adopted a three-tier intervention system to deal with identified problems in credit unions within the System.

Tier 1: Early Warning List (EWL): When deficiencies in the operations and controls exist, management is asked to provide to CUDIC a detailed action plan outlining the corrective action to be undertaken, its implementation and duration.

Tier 2: Performance Improvement Plan (PIP): If the EWL fails to achieve the required results, the credit union Board is required to prepare and submit to CUDIC an acceptable plan that will outline the corrective action, the duration and acceptable benchmarks against which the performance of the credit union will be monitored.

Tier 3: Supervision: Most serious stage of the Intervention System. The credit union requires CUDIC funding, major rehabilitation, amalgamation or liquidation/dissolution.

The year 2000 opened with six credit unions on the EWL, three on PIP and two (River Hebert and Telco) under supervision and in the process of liquidation.

Of these credit unions, one was moved from EWL to PIP status during the year due to the increased seriousness of the deficiencies. Because of the evident improvement noted in the weaknesses identified, another was changed from PIP to EWL. Four other credit unions that were on EWL at the beginning of the year were removed completely off the intervention system. However, four other credit unions were added to the EWL during the year. Both River Hebert Credit Union and Telco Credit Union were liquidated and dissolved.

At year-end, six credit unions were on EWL while three credit unions were on PIP. In conclusion, the number of credit unions under the intervention system has shown an overall reduction of 2.

Credit Union Financial Highlights

The Nova Scotia Credit Union System enjoyed an acceptable rate of growth amounting to 6.54% based on unaudited financial results for the year 2000. This growth was achieved despite the economic uncertainty that exists in areas such as Industrial Cape Breton, where surprisingly credit unions demonstrated growth of 8.57% and surpassed the provincial average.

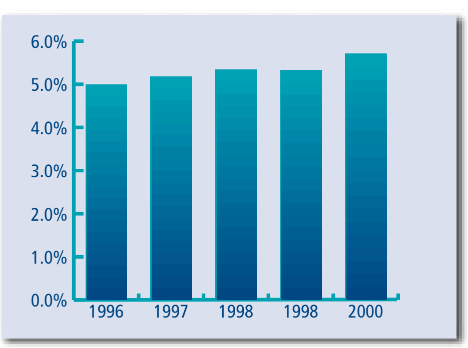
Assets increased to $969 Million as of year-end. Loans, prior to provisions, increased to $683 Million representing growth of 10.8% and deposits grew to $895 Million representing a 6.3% increase as of year-end.

The equity position of the System increased to $55 Million representing a 14.4% increase. Of this, retained earnings amounted to $50 Million and subscribed equity totaled $5 Million as of year-end.

It is interesting to note improvement in key financial ratios for the System. Gross financial margin has improved to 4.43% of weighted average assets representing an increase of 40 bps during the year. With a reduction of 12 bps in the provision for impaired loans and an increase of 5 bps in other income, gross margin improved by 58 bps. Finally, unaudited financial results indicate system profitability to be 78 bps. This represented a significant improvement of 43 bps during the year.

The System continues to strengthen because of amalgamations. As at January 1, 2001, there will be 45 credit unions operating in Nova Scotia and we anticipate that the economies realized through consolidation will further improve profitability and strengthen the Nova Scotia System.

C.U. EQUITY POSITION
(Percent)



Outlook

The competitive environment in which credit unions operate will continue to increase. The financial services industry can expect to see 3 – 5 years of heavy technology experimentation. This new technology; Internet, wireless devices, dumb terminals and Web TV will all work to bring services to where the member is located. The financial resources required to pioneer new technology is outside the ability of most credit unions, but they must be fast followers if they are not to be left on the sidelines.

Certainly parts of Nova Scotia will continue to enjoy strong economic growth in 2001. Unemployment rates province wide are expected to edge down into the 8% range, but much of it will be caused by the Halifax job market where unemployment has slipped below 6%. Industrial Cape Breton will continue to show slower economic growth, higher unemployment and more challenges for credit unions operating in that market.

This past year has been one where the professionalism and hard work of our staff was put to the test. The improved relationships and financial results of the Corporation speak highly of how the team was able to rise to the challenge. I would like to personally thank the Board, Staff, CUCNS, the Superintendent's office, and management of credit unions for the understanding and support they have shown throughout the year.

Respectfully submitted,

Vernon H. MacNeill
Acting Chief Executive Officer

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, 2000 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, 2000 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.

Dartmouth, Nova Scotia
January 10, 2001

Miles Sweeney
Chartered Accountant

Statement of Earnings and Retained Earnings

Year Ended December 31	2000	1999
Revenue		
Assessments and recoveries (Note 9)	$ 1,225,809	$ 1,358,163
Investment and other income	590,092	527,648
Gain on disposal of capital assets	(2,158)	16,843
	1,813,743	1,902,654
Expenses		
Operating		
Board and committees	100,886	74,948
Contracted services and expenses	72,146	3,250
Depreciation	20,800	44,017
Insurance	11,756	10,754
Legal	6,247	6,021
Occupancy	64,908	47,062
Office	38,910	50,642
Professional fees	35,575	36,218
Salaries and employee benefits	626,961	497,019
Telephone	8,330	12,568
Travel	87,088	100,937
	1,073,607	883,436
Conditional grants and loan purchases (Note 10)	(61,157)	662,500
	1,012,450	1,545,936
Net earnings	$801,293	$356,718

Retained earnings, beginning of year	$ 8,749,833	$ 8,413,805
Net earnings	801,293	356,718
Transfer to shared deductible pool reserve (Note 7)	(28,992)	(20,690)
Retained earnings, end of year	$ 9,522,134	$ 8,749,833

See accompanying notes to the financial statements.

Balance Sheet

December 31	2000	1999
Assets		
Cash	$ $31,588	$ 65,385
Accounts receivable (Note 3)	91,484	189,962
Investments (Note 5)	10,667,553	10,283,687
Prepaid expenses	4,869	8,566
Capital assets (Note 4)	59,429	60,040
	$ 10,854,923	$ 10,607,640
Liabilities		
Accounts payable and accrued liabilities (Note 6)	$ 776,847	$ 1,330,856
Commitments and contingent liabilities (Note 11)		
Equity		
Shared deductible pool reserve (Note 7)	555,942	526,951
Retained earnings	9,522,134	8,749,833
	10,078,076	9,276,784
	$ 10,854,923	$ 10,607,640

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	2000	1999
Cash provided by (used for)		
Operating activities		
Investment income received	$ 459,788	$ 506,188
Assessments and recoveries received	1,232,163	482,145
Receipts from sale of vehicles	–	16,843
Receipts from (payments to) employees on computer loans	1,207	(1,011)
Payments to employees and suppliers	(867,775)	(778,829)
Receipts from (payments for) credit union advances	104,096	(130,500)
Payments for grants and loan purchases	(670,485)	–
Cash flows provided by operating activities	258,994	94,836
Investing activities		
Purchase of investments (net of proceeds of sale)	(270,443)	(45,238)
Additions to capital assets	(22,348)	(20,943)
Cash flows used for investing activities	(292,791)	(66,181)
Increase (decrease) in cash	(33,797)	28,655
Cash, beginning of year	65,385	36,730
Cash, end of year	$ 31,588	$ 65,385

See accompanying notes to the financial statements.

Notes to the Financial Statements

December 31, 2000

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 inquiries 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 leaseholds improvements are depreciated over their useful lives as follows:

Furniture	20%
Computer equipment	30%
Leasehold improvement	3 years straight-line

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.

Notes to the Financial Statements

December 31, 2000

3. Accounts Receivable

	2000	1999
Credit Union advances	$ 26,404	$ 130,500
Credit Union assessments	8,683	15,037
Accrued interest	52,526	35,644
HST	2,391	6,026
Other	1,480	2,755
	$ 91,484	$ 189,962

4. Capital assets

	2000			1999
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Furniture and equipment	$ 192,943	$ 133,514	$ 59,429	$ 60,040
Leasehold improvements	45,687	45,687	-	-
	$ 238,630	$ 179,201	$ 59,429	$ 60,040

5. Investments

	Weighted Average		2000		1999	
	Interest Rate	Duration (Years)	Cost	Market Value	Cost	Market Value
Credit Union Movement	5.54%	.72	$ 2,801,693	$ 2,801,693	$ 2,431,250	$ 2,431,250
Managed portfolio						
Income	6.49%	4.16	7,500,000	7,839,260	7,600,000	7,701,402
Accrued income			365,860	365,860	252,437	252,437
			$ 10,667,553	$ 11,006,813	$ 10,283,687	$ 10,385,089

6. Payables and accruals

	2000	1999
Trade payables and accruals	$ 216,847	$ 28,356
Accrual for unrealized losses	–	175,000
Accrual for deficit funding	–	600,000
Accrual for unidentified losses (Note 8)	560,000	527,500
	$ 776,847	$ 1,330,856

7. Shared deductible pool reserve

The reserve was established to fund a shared deductible pool for liability insurance related to credit union directors. 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 $28,992 was transferred to the reserve.

8. Accrual for unidentified losses

The Corporation has recognized an accrual of $560,000 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.

9. Assessments and recoveries

	2000	1999
Credit unions' assessments - regular	$ 1,114,352	$ 1,227,979
Recovery of conditional grants	111,457	130,184
	$ 1,225,809	$ 1,358,163

In 2000 the assessment rate was 0.12%, based on average assets for the period October 1, 1999 to September 30, 2000. In 1999 the assessment rate was 0.14%.

10. Conditional grants and loan purchases

	2000	1999
Conditional grants paid and accrued in the year		
Credit Union Atlantic	$ –	$ 600,000
Increase (decrease) in accruals for claims considered likely under commitments	(93,657)	35,000
Increase in accrual for unidentified losses (Note 8)	32,500	27,500
	$ (61,157)	$ 662,500

11. Commitments and contingent liabilities

(i) Commitments in effect at December 31, 2000

The Corporation has provided protection to credit unions so that they will not suffer losses on loans acquired in certain amalgamations, or as part of a deficit funding agreement. As at December 31, 2000, the Corporation has out-

Notes to the Financial Statements

December 31, 2000

standing commitments in the amount of $86,466. Management's best estimate of the likely liability under these commitments is $Nil. The liability, if any, associated with the remaining identified problem accounts of $86,466 is not determinable at this time.

(ii) Lease commitments in effect at December 31, 2000
The Corporation is committed to pay annual lease payments for its premises and vehicles for future years as follows:

2001	$ 69,957
2002	72,642
2003	61,668
2004	40,947
	$ 245,214

12. Fair value disclosure

The fair value of financial assets and liabilities which include cash, investments, accounts and interest receivable, loans receivable and payables and accruals, approximates their carrying amounts.

The fair value of deposit insurance advances recoverable and the accrual for deposit insurance losses have not been determined because it is not practicable to determine fair value with sufficient reliability.

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:

2001	$ 204,476
2005	170,053
2006	298,687
2007	470,987
	$ 1,144,203

During the current year, $310,406 of income tax losses carried forward have expired.

Board of Directors

Michael MacNeil, Chair
Irish Cove

Patrick Moore, Vice Chair
Sydney

Mary Boyd, Secretary
Halifax

Donald Barry
Antigonish

Joseph Kennedy
Fall River

Irene Lefort
Antigonish

Father J.J. MacDonald
D'Escousse

Staff

Vernon H. MacNeill
Acting Chief Executive Officer

Norbert E. Gagnon
Analyst

Bernie Beaton
Analyst

Joyce A. Clarke
Information Management/Accountant

Rick Harris
Contract Analyst

Beverly O'Quinn
Executive Assistant

Karen Conrad
Secretary/Receptionist

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