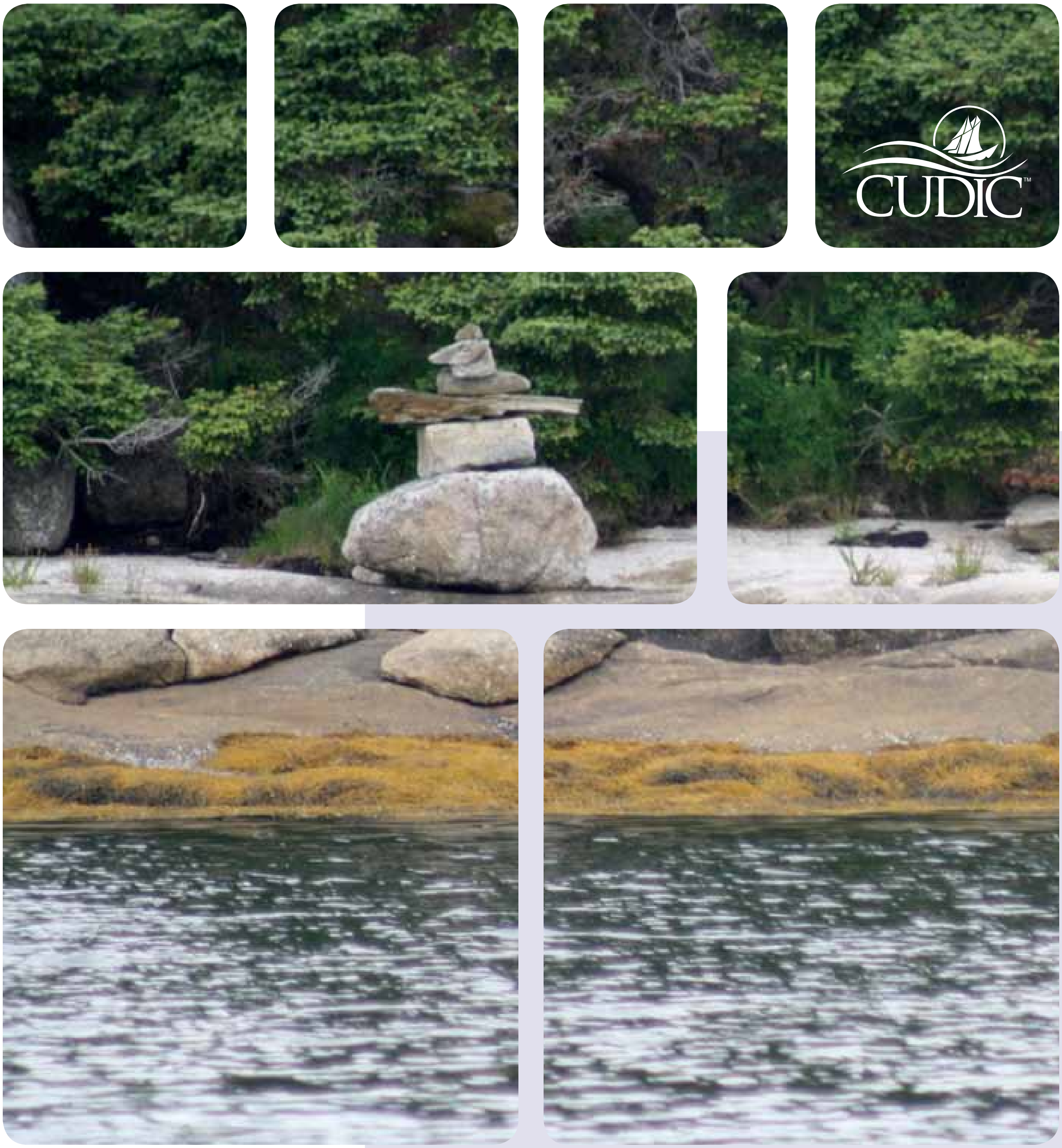
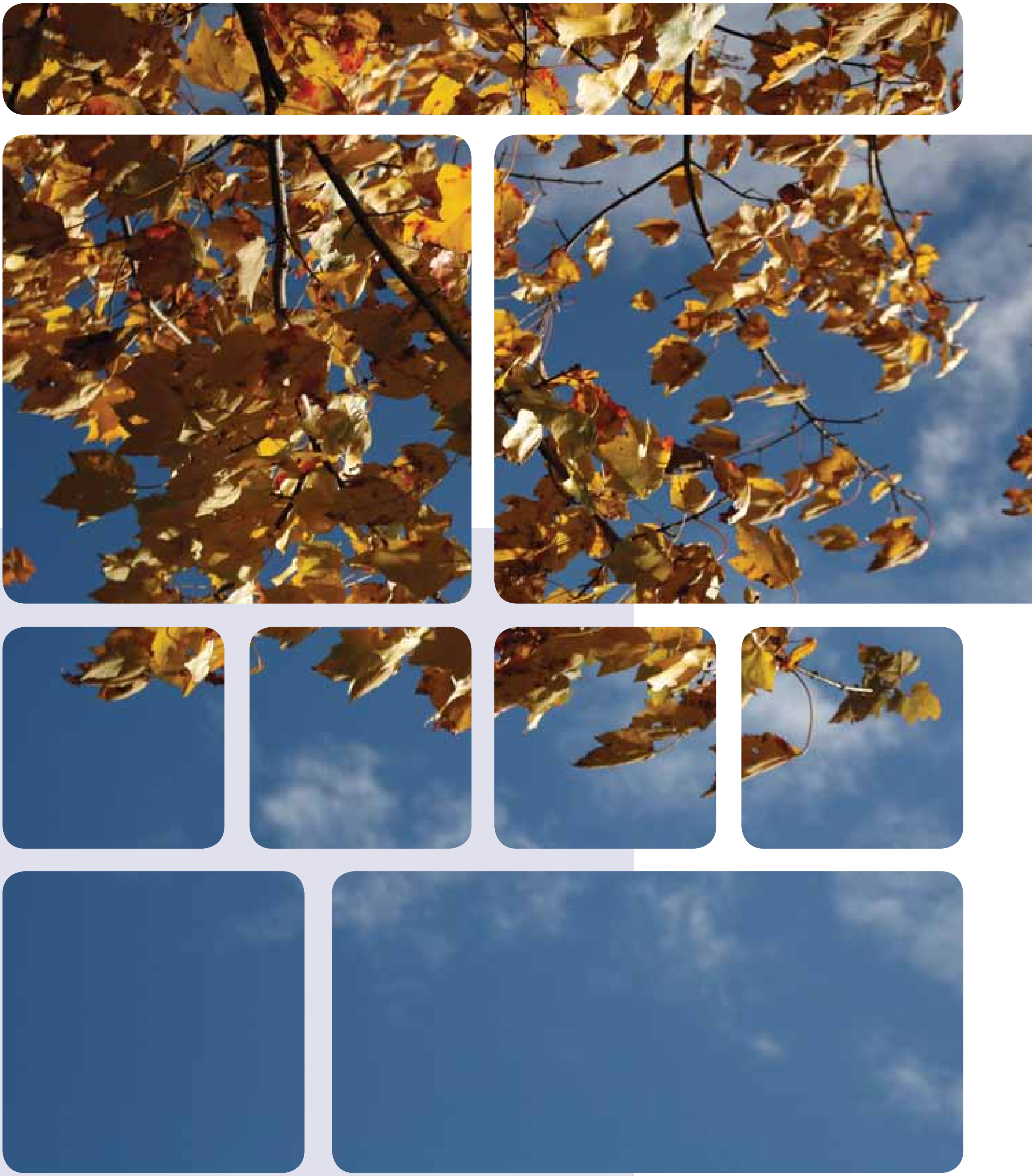
Nova Scotia Credit Union Deposit Insurance Corporation

Annual Report | 2011





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Committees of the
Board of Directors

As at December 31, 2011

Audit and Investment Committee

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

- Joe Kennedy
- Carol Pettigrew
- Irene Lefort
- Gerard MacKinnon
- Roddie Munroe, *ex-officio*

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.

- Irene Lefort, *Chair*
- Réal Boudreau
- Marion Garlick
- Gerard MacKinnon
- Roddie Munroe, *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.

- Réal Boudreau, *Chair*
- Joe Kennedy
- Carol Pettigrew
- Marion Garlick
- Roddie Munroe, *ex-officio*

Standing, from left:
Réal Boudreau, *Vice-Chair*; **Carol Pettigrew**; **Marion Garlick**

Seated, from left:
Irene Lefort, *Secretary*; **Joe Kennedy**; **Roddie Munroe**, *Chair*

Absent from photo:
Gerard MacKinnon

Report of the Chair of the Board

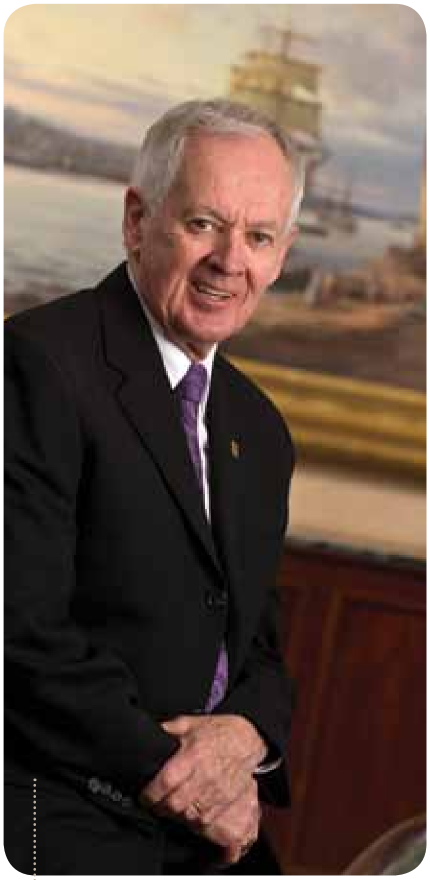
On behalf of the Board of Directors of the Nova Scotia Credit Union Deposit Insurance Corporation, I am pleased to report that operationally our organization had another successful year in 2011. As we continue to operate in a somewhat unstable environment globally, with some financial sectors experiencing difficulties, credit unions in Nova Scotia are facing these challenges very well, I believe, as a result of most being well capitalized and strong, both financially and in meeting the needs of their customer-owners. I will not be reporting on the financial and operational side, as our CEO Pat Ryan will cover that in his report.

CUDIC's main focus is on protecting the members deposits and assessing risk in credit unions by doing onsite reviews. Our staff and contract employees completed a total of 33 reviews at credit unions during the past year. This included loan reviews, internal control reviews and money laundering audits. It is important to note that our deposit insurance coverage of $250,000 is the highest in our province and goes a long way in giving our members the consumer confidence they deserve, particularly in these uncertain times.

The Board of Directors met on five occasions during the year. In addition, two conference call meetings took place. Our individual committees met as well during the year to deal with their specific responsibilities and any issues that arose which needed to be dealt with prior to a full board meeting.

In an effort to keep our directors fully informed and up to date with happenings in the credit union system, numerous conferences/meetings were attended including the World Council of Credit Unions Conference (WOCCU), the Regulators Round Table Conference, and the Canadian Conference for Credit Union Executives held in Niagara Falls, Ontario. Regionally, we attended the Atlantic Stabilization Funds meeting in the fall held in PEI, and the full board attended Atlantic Central's Annual General Meeting and Semi Annual Conference. A Planning Session was held in Digby in June facilitated by Alisdair Smith. Included in our planning session was CEO Bernie O'Neil and Chair Dave MacLean of Atlantic Central, Superintendent Doug Murphy and Deputy Superintendent William Ngu, and Paul Emile LeBlanc, General Manager, Caisse populaire de Clare. We were pleased to have the Honourable Graham Steele, Finance Minister, Province of Nova Scotia attend a function during our planning session. Attendance at these events gives us an opportunity to network with counterparts locally, nationally and worldwide. In addition to the fore mentioned events, the CUDIC Board received a presentation on our Investment Portfolio by Heather Hurshman, our Account Manager at Louisbourg Investments and a presentation on Asset Liability Management by Bernie Beaton. We also received numerous packages on issues in the credit union system.

En cette année de transition nous avons eu plusieurs défis que nous avons surmontés. Ce fut pendant la dernière année que nous avons vu l'arrivée de notre nouveau directeur général, Pat Ryan. Il s'est rapidement acclimatisé au lieu de travail et aux besoins de CUDIC. Nous sommes confiants que la direction qu'il apporte est la bonne et pour CUDIC, et pour les caisses populaires et par ce fait, pour tous les clients-propriétaires. De plus, le mandat de Camille Maillet au sein du conseil d'administration a tiré à sa fin; il a été remplacé par Gerald MacKinnon à qui nous souhaitons la bienvenue. Sur tous les fronts, nous pouvons rapporter que l'avenir de CUDIC est dans de bonnes mains.



Rod A. Munroe
Chair of the Board of Directors

Once again I would like to mention the positive tri-party relationship that exists between Atlantic Central, the Office of the Superintendent of Credit Unions and CUDIC. This unique relationship holds regular information meetings and in addition representatives from Government and Atlantic Central sit as observers at our Board meetings. As I attend National meetings, this arrangement often comes up in discussions and I am pleased to report Nova Scotia's model is the envy of the rest of the country. This arrangement gives our Board first hand information as we receive updates on Government, system, and other issues.

As I look back on 2011, I feel confident in reporting that CUDIC's Board of Directors takes their roles and responsibilities very seriously, making decisions only after careful and prudent deliberations that are taken in the best interests of the credit union system. I thank the Board of Directors for their diligence and support during the year. I also want to thank our Chief Executive Officer, Pat Ryan, and his staff for the support and assistance they provide to the Board of Directors. This was Pat's first year with our organization and on behalf of the Board of Directors I want to say I believe he has done a tremendous job in adapting to his position. He is a quick learn and has caught on to the credit union system very well. We look forward to working with him and his team in the years ahead. During the year, Camille Maillet completed his second term on our Board, finishing up in October. We want to thank him for his valuable contribution to our organization during his tenure. We welcomed Marion Garlick and Gerard MacKinnon as new Board members during the year and look forward to their respective contributions to our organization. Finally our thanks to credit union management and staff for their cooperation and courtesy towards CUDIC and staff. Congratulations to all for a very successful 2011.

Respectfully submitted,

Rod A. Munroe
Chair of the Board of Directors

Report of the Chief Executive Officer

Pat Ryan
Chief Executive Officer

Introduction

I am pleased to report on the operations of the Corporation and the condition of the system for 2011. Through a period of trying economic times, all stakeholders have played an important role in maintaining the strength and effectiveness of Credit Unions in Nova Scotia.

The level of complexity in governing and operating a credit union is significant and challenging. Management and Boards have overseen the full implementation of International Financial Reporting Standards (IFRS). Adhering to federal regulations regarding money laundering regimes as supervised by FINTRAC and privacy laws pursuant to PIPEDA (Personal Information Protection and Electronic Documents Act.) require ongoing investments in people and systems to comply. In 2012 and beyond, the additional requirements of Basel III and the market entry of credit unions operating under federal legislation will continue to add to the complexity of our operating environment.

Global events over the course of the last decade from 9/11 and Al Qaeda, to the Global Financial Crisis and Lehman Brothers have permanently changed the way in which your institutions are required to operate. Consequently, the regulatory obligation for boards and management teams is substantial and will continue to be. During the year I was introduced to "The Director's Conundrum" ...

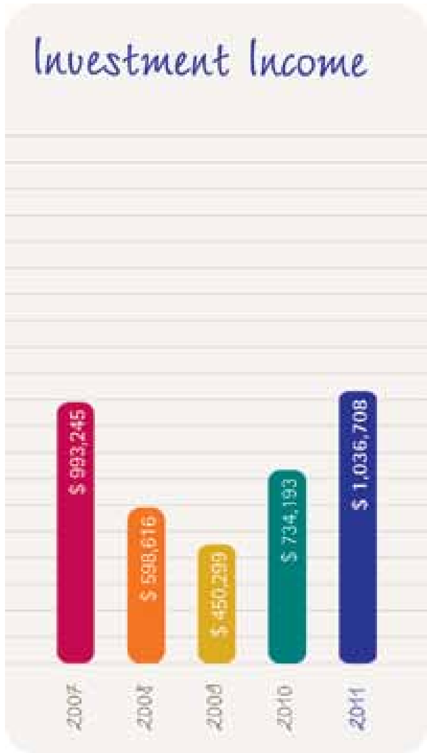
"Take a group of part-time directors and present them with an extremely difficult job, but give them limited time together. And then charge this group with the ultimate responsibility for ensuring that a community's most important assets are well managed..."

from "Back to the Drawing Board" by Colin Carter and Jay Lorsch

I expect this notion resonates with many readers. During 2012, in concert with the Superintendent, Atlantic Central, Boards and system stakeholders, we will be focusing on ways and means to ensure that Boards are equipped to respond to the demands of regulation and the changing business environment.

The year in review

In 2011, we experienced the full implementation of IFRS. This has required significant effort by the system to become compliant. In the coming months and years we will be confronted with the move toward achieving Basel III standards as they relate to equity, liquidity and the way in which required levels are set and measured.



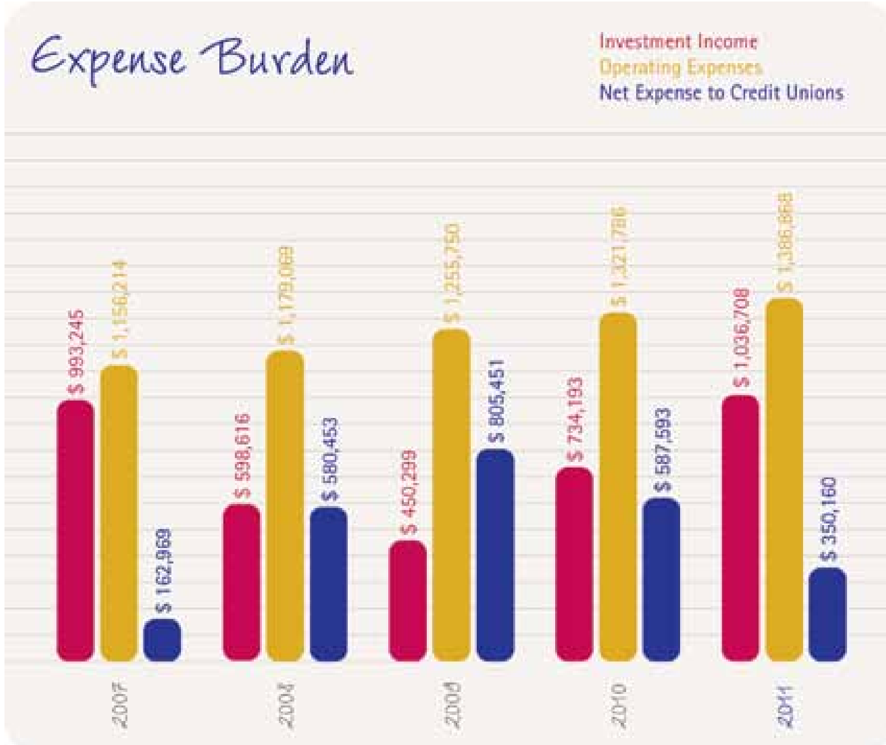
As a member of the Stabilization Funds of Canada, I was able to participate in two national forums where deposit insurers and regulators convened to address matters of mutual concern. Jurisdictions are working collaboratively to develop consistent approaches to the implementation and monitoring of heightened regulatory standards. It is in our collective interest to maintain a strong national system.

I have had the opportunity to participate in national and international events ranging from the International Credit Union Regulators Network (ICURN) in Washington, DC to the World Council of Credit Unions Conference (WOCCU) in Glasgow, Scotland. Both have been invaluable in providing insight into the effect of a changing financial services environment on our system. Domestically and globally credit unions, deposit insurers and regulators have common concerns ranging from governance and risk management, to Basel III and demographic shifts.

CUDIC Results

CUDIC generated positive results in 2011. Net earnings were $1,126,129 ($817,346 '10) reflective of improved returns on the fixed income portion of our portfolio ($1,036,708 '11 vs. $734,193 '10). Assessments from credit unions increased by $71,350 mainly as a result of growth in system assets; the weighted average assessment paid by credit unions in 2011 was 7.75%, unchanged from 2010. Since the lowest possible rate is 7 bps, the assessment rate is indicative of the continued strength of credit unions in the province.

Operating expenses increased $65,082 or 4.92% over 2010. The increase is attributable to Salary and Employee Benefits ($58,879) related to a full years expense for a new Analyst hired in the latter part of 2010 and Contract Services and Expenses ($11,115) reflecting an increase in the number of onsite examinations completed during the year. (CUDIC staff completed 33 on site examinations covering internal controls, money laundering and credit granting during the year with satisfactory results.)



The Investment Committee and the Board provide careful oversight of our investment portfolio. Approximately 80% of our funds are managed by a third party; with Canadian and U.S. equities comprising a significant portion of this portfolio. This asset class was challenged during 2011 as the sovereign debt crisis in Europe combined with budget uncertainty in the U.S. dampened investor sentiment. The one-year return on our managed portfolio was a positive 2.10% (8.91% '10), with unrealized equity losses balanced by the performance of the fixed income portion of the portfolio. The equity holdings in our portfolio are carefully selected for quality by our investment counsel and well diversified. Since its inception in 1992, the portfolio has had an overall return of 6.08%. As at December 31, 2011, our investments were 21.6% in cash and equivalents, 41.6% in Fixed Income, 24% in Canadian Equity, and 12.8% in US Equity. The net return (Accumulated Other Comprehensive Income) on this portion of our fund since inception is $195,141, ($782,521 '10) reflecting an unrealized decrease in the value of the equity portion of the corporation's portfolio. Fund balance is $19,966,130 or 1.03% of system assets versus a benchmark of 1%.

The Superintendent's Office, Atlantic Central and CUDIC continue to maintain an excellent relationship, with regular tri-party meetings held during the year providing a means to collectively address areas of mutual concern.

We continue to enjoy excellent relationships with leaders from the other Atlantic Deposit Insurers. Regular communication occurs at both the management and Board level to share information and best practices as we execute our respective mandates.

I would like to express my appreciation to my staff, colleagues and the Board of Directors for their loyalty, commitment and hard work during the year. Finally, thank you to credit union management, staff and directors for your cooperation and responsiveness in helping CUDIC execute its mandate.

System Results

Preliminary results reflect net income after taxes of $13.5 Million or 72 bps ($9.5 Million - 54 bps '10). Profitability improvement is tied to the impact of the Atlantic Central stock dividend which caused investment income, where the majority of this transaction is reflected, to increase sharply to 78bp (46bp '10). Operating expenses increased in absolute terms by $2 Million to $76.7 Million. Results improved as a percentage of WAA to 4.09% (4.19% '10). Provision for impaired loans reduced to 13bp vs. 20bp in 2010, reflecting prudent portfolio management. Personnel costs are the largest expense in this category at 1.98%, growth of this expense element in absolute terms was only $49 Thousand.

System Results

	Unaudited 2011	2010	2009	2008	2007
Return on Assets (% of average assets)	0.72	0.54	0.52	0.47	0.55
Total Equity	8.51	8.31	8.16	8.00	8.08
Delinquency >30 Days	1.15	1.31	1.28	1.48	1.57
Delinquency >90 Days	0.61	0.67	0.55	0.61	0.56
Asset Growth	6.20	4.52	4.79	7.34	5.25
Deposit Growth	4.75	4.17	3.60	6.79	4.34
Loan Growth	3.84	5.69	5.40	6.59	4.77

Asset growth was 6.2% or $113 Million year over year. Equity position is solid at 8.51% (8.31% '10). Deposits grew by 4.75% (4.17% '10), while Loan growth was muted at 3.84% (5.69% '10). The System has excess liquidity with the Loan/Asset ratio at 73.42% (75.09% '10). The bulk of growth occurred in mortgages which grew by $43 Million, or 5.89% year over year. Delinquency is well controlled at 1.15% (1.31% '10) for all accounts and LOCs over 30 days, and 90 day delinquency rate at .61% (.67% '10).

Assessments

The operating environment in 2012 will continue to be challenging. Forecast GDP for 2012 at 1.6% will rank Nova Scotia's economy as the second slowest growing in the country. Forecasters expect that in 2013 the Deep Panuke offshore natural gas project and the Halifax Shipyard contract will take the province to a 10 year high rate of 3.5% growth. Unemployment continues to be high although improved year over year. It is worthy of note that there are more Nova Scotians working (457,500) than at the pre-recession peak (456,100) in October of 2008. The 2011 Census indicates that Nova Scotia experienced the smallest population growth in the country at .9% versus the national average growth rate of 5.9% between 2006 and 2011.

The Bank of Canada continues to express grave concerns over the level of household debt in the country. To this end, the Office of the Superintendent of Financial Institutions (OSFI) has issued guidance to federally regulated financial institutions emphasizing the need for prudent policy and practices in their mortgage portfolios.

As deposit insurers, we will be working with credit unions to ensure that these risk factors continue to be identified and managed effectively.

Respectfully submitted,

Pat Ryan
Chief Executive Officer

Financial Statements

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, 2011, and the statements of earnings, equity and cash resources 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, 2011, and its financial performance and its cash flows for the year ended in accordance with International Financial Reporting Standards.

Comparative Information

Without modifying our opinion, we draw attention to Note 2 to the financial statements which describes that Nova Scotia Credit Union Deposit Insurance Corporation adopted International Financial Reporting Standards on January 1, 2011 with a transition date of January 1, 2010. These standards were applied retrospectively by management to the comparative information in these financial statements, including the statement of financial position as at December 31, 2010 and January 1, 2010, and the statements of earnings, equity and cash resources for the year ended December 31, 2010 and related disclosures. We were not engaged to report on the restated comparative information and, as such, it is unaudited.

Nitos I Sweeney Limited

Chartered Accountants

Dartmouth, Nova Scotia

February 10, 2012

Statement of Earnings

Statement of Earnings | Year ended December 31	**2011**	2010
Revenue		
Assessments and recoveries *(Note 8)*	**$ 1,476,289**	$ 1,404,939
Investment and other income	**1,036,708**	734,193
	2,512,997	2,139,132
Expenses		
Operating		
Board and committees	**158,622**	132,303
Contracted services and expenses	**116,559**	105,444
Depreciation	**36,573**	26,541
Insurance	**16,454**	17,266
Legal and consulting	**1,249**	1,012
Occupancy	**87,913**	82,474
Office	**55,888**	54,049
Professional fees	**88,306**	124,916
Risk management programs	**15,000**	48,125
Salaries and employee benefits	**675,039**	616,160
Telephone	**15,688**	13,134
Travel	**119,577**	100,362
	1,386,868	1,321,786
Net earnings	**$ 1,126,129**	$ 817,346

See accompanying notes to the financial statements

Statement of Equity

Statement of Equity | December 31, 2011

	Shared Deductible Pool Reserve (Note 7)	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Equity	Total Comprehensive Income (Loss)
Balance January 1, 2010	$ –	$ 17,395,262	$ 180,418	$ 17,575,680	$ 2,146,052
Net earnings for the year	–	817,346	–	817,346	817,346
Realized gains (losses) transferred to net earnings during the year	–	–	182,237	182,237	182,237
Unrealized gains (losses) on available for sale financial assets during the year	–	–	419,866	419,866	419,866
December 31, 2010	$ –	$ 18,212,608	$ 782,521	$ 18,995,129	$ 3,565,501
Net earnings for the year	–	1,126,129	–	1,126,129	1,126,129
Realized gains (losses) transferred to net earnings during the year	–	–	223,659	223,659	223,659
Unrealized gains (losses) on available for sale financial assets during the year	–	–	(811,039)	(811,039)	(811,039)
December 31, 2011	$ –	$ 19,338,737	$ 195,141	$ 19,533,878	$ 4,104,250

See accompanying notes to the financial statements

Statement of Financial Position

	December 31, 2011	December 31, 2010	January 1, 2010
Assets			
Cash	**$ 73,698**	$ 60,703	$ 67,001
Accounts receivable *(Note 4)*	**99,716**	55,619	155,394
Investments *(Note 5)*	**19,966,130**	19,443,165	18,639,360
Prepaid expenses	**10,301**	12,831	12,200
Capital assets *(Note 6)*	**50,276**	45,475	16,936
	$ 20,200,121	$ 19,617,793	$ 18,890,891
Liabilities			
Accounts payable and accrued liabilities *(Note 7)*	**$ 201,865**	$ 235,038	$ 966,475
Unclaimed balances *(Note 10)*	**464,378**	387,626	348,736
	666,243	622,664	1,315,211
Commitments *(Note 11)*			
Equity			
Accumulated other comprehensive income	**195,141**	782,521	180,418
Retained earnings	**19,338,737**	18,212,608	17,395,262
	19,533,878	18,995,129	17,575,680
	$ 20,200,121	$ 19,617,793	$18,890,891

Approved on behalf of the board:

Director   *Director*

See accompanying notes to the financial statements

Statement of Changes in Cash Resources

Statement of Changes In Cash Position | Year ended December 31	**2011**	2010
Cash provided by (used for)		
Operating activities		
Investment and other income received	**$ 518,577**	$ 535,739
Assessments and recoveries received	**1,440,567**	1,482,380
Receipts from (advances to) employees on computer loans	**(1,572)**	(4)
Payments to employees and suppliers	**(1,369,139)**	(1,306,170)
Payment of First Claims Reserve	**–**	(737,365)
Receipts from unclaimed balances, net of paid outs	**76,752**	38,890
Cash flows provided by operating activities	**665,185**	13,470
Investing activities		
Purchase of investments, net of proceeds of sale	**(610,816)**	35,312
Additions to equipment and leaseholds	**(41,374)**	(55,080)
Cash flows used for investing activities	**(652,190)**	(19,768)
Increase (decrease) in cash	**12,995**	(6,298)
Cash, beginning of the year	**60,703**	67,001
Cash, end of year	**$ 73,698**	$ 60,703

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, 2012, the Corporation`s Board of Directors approved and authorized for issue the financial statements for the year ended December 31, 2011.

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

IFRS 1, First-Time Adoption of IFRS

These financial statements represent the first annual financial statements of the Corporation prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The Corporation adopted IFRS in accordance with IFRS 1, First-Time Adoption of International Financial Reporting Standards. The first date at which IFRS was applied was January 1, 2010. In accordance with IFRS, the Corporation has:

- provided comparative financial information;
- applied the same accounting policies throughout all periods presented;
- retrospectively applied all effective IFRS standards as of December 31, 2009, as required; and
- applied certain optional exemptions and certain mandatory exceptions as applicable for first time IFRS adopters (see below).

The Corporation's financial statements were previously prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"). Canadian GAAP differs in some areas from IFRS. In preparing these financial statements, management has amended certain accounting, measurement and consolidation methods previously applied in the Canadian GAAP financial statements to comply with IFRS.

This note contains reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on equity, earnings and comprehensive income along with line-by-line reconciliations of the statement of financial position as at December 31, 2010 and January 1, 2010, the statement of earnings and statement of equity, and if material, changes in cash resources for the year ended December 31, 2010.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Corporation's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

As an IFRS first-time adopter, the Corporation was eligible for the following optional exemptions and mandatory exceptions.

Optional exemptions

IFRS 1 provides the option to measure the carrying amount of capital assets based on a deemed cost. The Corporation elected to measure the carrying amount of capital assets at the date of transition using a deemed cost based on the depreciated cost as of January 1, 2010 as determined by Canadian Generally Accepted Accounting Principles.

Mandatory exceptions

Estimates - Hindsight is not used to create or revise estimates. The estimates previously made by the Corporation under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies.

Reconciliation of retained earnings:

	December 31, 2010	January 1, 2010
Retained earnings under previous Canadian GAAP	**$ 18,308,028**	$ 17,517,784
Recognition of defined benefit plan under IAS 19	**(95,420)**	(122,522)
Retained earnings under IFRS	**$ 18,212,608**	$ 17,395,262

Reconciliation of net earnings:

	December 31, 2010
Earnings under previous Canadian GAAP	**$ 790,244**
Adjustment to salaries and employer benefits expense	**27,102**
Net earnings reported under IFRS	**$ 817,346**

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Statement of financial position at January 1, 2010

	Canadian GAAP balance	IFRS adjustments	IFRS balance
Assets			
Cash	**$ 67,001**	$ –	$ 67,001
Accounts receivable	**155,394**	–	155,394
Investments	**18,639,360**	–	18,639,360
Prepaid expenses	**12,200**	–	12,200
Capital assets	**16,936**	–	16,936
	$ 18,890,891	$ –	$ 18,890,891
Liabilities			
Accounts payable and accrued liabilities	**$ 843,953**	$ 122,522	$ 966,475
Unclaimed balances *(Note 10)*	**348,736**	–	348,736
	1,192,689	122,522	1,315,211
Equity			
Accumulated other comprehensive income	**180,418**	–	180,418
Retained earnings	**17,517,784**	(122,522)	17,395,262
	17,698,202	(122,522)	17,575,680
	$ 18,890,891	$ –	$ 18,890,891

The opening balances at January 1, 2010 were adjusted to reflect the adoption of International Accounting Standard #19 (IAS 19) which requires that liabilities and expenses under a defined benefit plan be recognized immediately.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). These statements are denominated in Canadian dollars.

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.

The principal accounting policies are set out below:

Cash and cash equivalents

Cash and cash equivalents include cash on hand, and short-term deposits with maturities of three months or less that are subject to an insignificant risk of change in value based on the criteria set out in IAS 7. Cash and cash equivalents are recorded at carrying value which is a reasonable estimate of fair value.

Capital assets

Capital assets are recorded at cost. 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

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 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 non-current 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.

Impairment of tangible assets

At the end of each reporting period, the Corporation reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Corporation estimates the recoverable amount at the cash-generating unit level. Management assessed that there was only one cash-generating unit and that it encompasses all operations of the Corporation. Therefore, the Corporation is the cash-generating unit.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

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.

a) 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 earned.

Investment income
Dividend income from investments is recognized when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Corporation and the amount of income can be measure 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.

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.

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.

Financial assets and financial liabilities (financial instruments)
The Corporation classifies its financial assets and financial liabilities according to their characteristics and management's intentions related thereto for the purpose of ongoing measurements. 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.

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.

Accumulated other comprehensive income is reported on the statement of financial position as a separate component of retained earnings (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 Asset / Liability	Classification	Subsequent 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 liabilities	Amortized cost
Unclaimed balances	Other financial liabilities	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.

Cash flow statement

The cash flow statement is prepared using the direct method.

4. ACCOUNTS RECEIVABLE

	December 31 2011	December 31 2010	January 1 2010
Dividend assistance and recoveries	**$ 36,282**	$ –	$ 36,282
Credit Union assessments	**–**	–	41,719
Rebates receivable	**19,586**	–	–
Accrued interest	**33,284**	34,266	72,834
Harmonized sales tax	**7,641**	19,442	3,212
Computer loans	**2,923**	1,911	1,347
	$ 99,716	$ 55,619	155,394

5. INVESTMENTS

	December 31 2011	December 31 2010	January 1 2010
Managed investments	$ 15,810,452	$ 15,598,305	$ 14,359,180
Credit union investments	4,155,678	3,844,860	4,280,180
	$ 19,966,130	19,443,165	$ 18,639,360

Managed investments consist of Canadian federal, municipal and provincial government and corporate bonds, index 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 1.409% to 7.768% on an annual basis, with maturity dates ranging from 10 months to 97 years. The cost of these investments at December 31, 2011 is $15,615,312 (December 31, 2010 - $14,815,784; January 1, 2010 - $14,178,763).

Credit union investments include credit union guaranteed investment certificates and a demand liquidity account, with interest rates ranging from 1.16% to 2.25% and maturity dates up to October 2012. Market value is equal to cost for these investments.

6. CAPITAL ASSETS

Cost:	Furniture + office equipment	Leasehold improvements	Total
January 1, 2010	$ 30,574	$ –	$ 30,574
Acquisitions	54,080	1,000	55,080
Dispositions	(7,342)	–	(7,342)
December 31, 2010	$ 77,312	$ 1,000	$ 78,312
Acquisitions	41,374	–	41,374
Dispositions	–	–	–
December 31, 2011	$ 118,686	$ 1,000	$ 119,686
Accumulated Amortization:			
January 1, 2010	$ 13,638	$ –	13,638
Dispositions	(7,342)	–	(7,342)
Amortization	26,341	200	26,541
December 31, 2010	32,637	200	32,837
Dispositions	–	–	–
Amortization	36,373	200	36,573
December 31, 2011	$ 69,010	$ 400	$ 69,410

Net Book Value:	
January 1, 2010	$ 16,936
December 31, 2010	$ 45,475
December 31, 2011	$ 50,276

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

	December 31 2011	December 31 2010	January 1 2010
Trade payables and accruals	**$ 72,199**	$ 113,796	$ 47,942
Accrual for retirement *(Note 14)*	**129,667**	121,242	181,168
First claim reserve payable	**–**	–	737,365
	$ 201,866	$ 235,038	$ 966,475

8. ASSESSMENTS AND RECOVERIES

	2011	2010
Credit unions' assessments - regular	**$1,440,007**	$1,368,658
Recoveries of assistance to credit unions	**36,282**	36,281
	$1,476,289	$1,404,939

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:

2014	$ 571,261
2015	199,756
2026	350,910
2027	274,237
2028	476,604
2029	636,373
2030	663,694
2031	503,872
	$ 3,676,707

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

10. 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:

January 1, 2010	$ 348,736
Add receipts from Credit Unions	41,584
Less payouts to members	(2,694)
December 31, 2010	387,626
Add receipts from Credit Unions	80,540
Less payouts to members	(3,788)
December 31, 2011	$ 464,378

11. COMMITMENTS

Lease commitments

The Corporation has a lease for its premises amounting to $74,750 per year, expiring in December 2015. The lease contract stipulates that the Corporation has the option to extend the lease for a period of 5 years. The Corporation also has leases for vehicles expiring at various dates until 2015. The Corporation has done a thorough review of the lease conditions and concluded that they were all operating leases. The Corporation has expensed $110,591 during the current year (2010 - $102,646) related to the operating leases.

Minimum future payments under these operating leases are as follows:

2012	$109,408
2013	109,408
2014	100,230
2015	81,600
	$ 400,646

12. NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS

The fair value of financial instruments other than investments, which include cash, accounts receivable, accounts payable and unclaimed balances approximate their carrying values due to their short-term nature.

Investments are exposed to financial risks including credit risk, liquidity and market risk:

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 contract. The investment policy established by the Corporation limits the credit risk. The credit risk within the pooled funds is managed by the investment manager in accordance with their individual policies.

B) Liquidity risk

Liquidity risk relates to the possibility that the Corporation does not have sufficient cash or cash equivalent to fulfil its financial obligations as they come due. All 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. Market risk comprises the following two types of risk:

i. **Currency risk:** Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign rates.

ii. **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 re-pricing risk of fixed income investments.

D) Operational risk

Operational risk of direct or indirect loss arising from a wide variety of causes associated with the Corporation's processes, personnel, technology and infrastructure, and external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements. Operational risks arise from all of the Corporation's operations. The Corporation's primary operational risk is that credit unions will default, requiring the Corporation to reimburse insured deposits.

13. 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.

14. RELATED PARTY TRANSACTIONS

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

	2011	2010
Short-term benefits	**$174,894**	$202,890
Post-employment benefits	**8,206**	8,374
Total salaries and benefits	**$183,100**	$211,264

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 (2011 - $34,523; 2010 - $31,495).

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

District 1

- Coady Credit Union Limited
- Dominion Credit Union Limited
- Electric Employees Credit Union Limited
- Glace Bay Central Credit Union Limited
- New Waterford Credit Union Limited
- North Sydney Credit Union Limited
- Princess Credit Union Limited
- Steel Centre Credit Union Limited
- Sydney Credit Union Limited
- Whitney Credit Union Limited

District 2

- Acadian Credit Union Limited
- Bay St. Lawrence Credit Union Limited
- East Coast Credit Union Limited
- St. Joseph's Credit Union Limited

District 3

- Bergengren Credit Union Limited
- Community Credit Union of Cumberland Colchester Limited

District 4

- Credit Union Atlantic Limited
- Electragas Credit Union Limited
- iNova Credit Union Limited
- Teachers Plus Credit Union Limited
- Province House Credit Union Limited
- Public Service Commission Employees' Credit Union Limited

District 5

- Caisse Populaire de Clare Limitée
- Coastal Financial Credit Union Limited
- LaHave River Credit Union Limited
- New Ross Credit Union Limited
- Rossignol Credit Union Limited
- Valley Credit Union Limited
- Victory Credit Union Limited
- Weymouth Credit Union Limited

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.

nscudic.org

CUDIC
Suite 212
200 Waterfront Drive
Bedford
Nova Scotia
B4A 4J4

telephone 902.422.4431
toll free 1.877.770.5622
fax 902.492.3695
email info@nscudic.org

www.nscudic.org