Nova Scotia Credit Union Deposit Insurance Corporation

Protecting Credit Union Depositors

Annual Report 2013

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board

the board of directors

committees

directors, left to right
Carol Pettigrew, *Secretary*
Roddie Munroe, *Chair*
Lantz Siteman
Bill Legge
Réal Boudreau, *Vice-Chair*
Marion Garlick
Gerard MacKinnon

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.

- Marion Garlick, *Chair*
- Réal Boudreau
- Carol Pettigrew
- Bill Legge

Audit Committee

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

- Carol Pettigrew, *Chair*
- Gerard MacKinnon
- Lantz Siteman

Investment Committee

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

- Gerard MacKinnon, *Chair*
- Carol Pettigrew
- Lantz Siteman

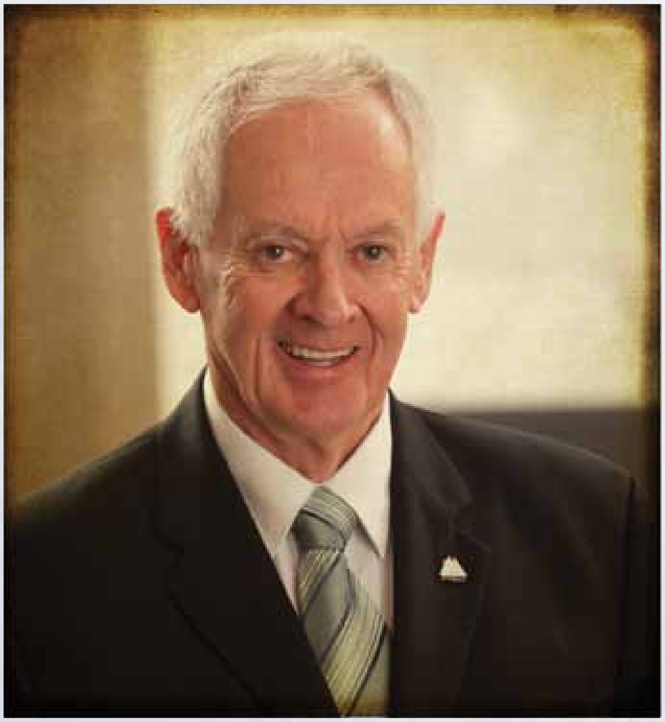
Policy Committee

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*
- Gerard MacKinnon
- Bill Legge
- Marion Garlick

report of the **chair of the board**

On behalf of the Board of Directors of the Nova Scotia Credit Union Deposit Insurance Corporation (CUDIC), I am pleased to provide this Annual Report and to advise that operationally our organization had another successful year in 2013. Globally, the Financial Services sector continues to operate in a somewhat challenging and unstable environment. The Canadian banking system has fared much better than many of its counterparts around the world. The changes that have been implemented to make for stronger banking systems with more stringent and prudent regulations appear to be working. The number of credit unions in Nova Scotia stood at 29 as of December 31, 2013. We are not experiencing the consolidations that are taking place in other areas of the country. I will not be reporting on the financial and operational side of our operations, as our Chief Executive Officer, Pat Ryan, will cover that in his report.



CUDIC's main focus is on protecting the member-owners deposits and assessing risk in credit unions by doing on site reviews. Our staff and contract employees completed a total of 28 reviews at credit unions during the past banking year. This included 16 Loan Reviews, nine Internal Control Reviews and three 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 expect and deserve.

The Board of Directors met on five occasions during the year. Our standing committees; Executive, Audit, Investment, Policy and Human Resources, 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 addition, representatives from both Board and Management were actively involved in the Credit Union Act Review, which was presented to Government in January 2014.

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 (ICURN), and the Credit Union Prudential Supervisors Association (CUPSA) Conference. Regionally, we attended the Atlantic Stabilization Funds meeting in St. John's in October. The full board attended Atlantic Central's Annual General Meeting and Semi Annual Conference. 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, a presentation on Legal Responsibilities for Board Members by Robert MacKeigan, Counsel for Stewart McKelvey and a Presentation on the Nova Scotia Economy by Economist Tim O'Neil. We also received numerous packages on issues in the credit union system.

"Pendant la dernière année fiscale le conseil d'administration a, comme d'habitude, oeuvré à remplir ses fonctions de conseiller et de superviseur sur la gérance de notre corporation. Que se soit par le biais de ses réunions régulières, les réunions des divers comités permanents (Ressources humaines, Vérification, Placements, Politiques, le Bureau de direction) ou par sa participation aux rencontres avec les divers partenaires dans le système des caisses populaires, le c.a. a rencontré ses responsabilitès au cours de l'année. Bien que le c.a. est un élément permanent de la corporation, sa compostion est toujous changeante. Nous désirons toujours remercier notre directeur général, Pat Ryan, et son personnel pour le rendement professionel qu'ils apportent aux tâches qu'ils accomplissent au sein de l'organisme; sans eux la viabilité de notre corporation et du système en général serait précaire."

We continue to be part of a 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. This arrangement gives our Board first hand information as we receive updates on Government, System, and other issues.

In November we received the results of an examination of our organization done by the Nova Scotia Finance and Treasury Board (Financial Institutions Division). This examination was done in respect to the requirements of the Credit Union Act and Regulations, and the Memorandum of Understanding between the Provincial Government and CUDIC signed in November of 2009. I am pleased to report that the Nova Scotia Credit Union Deposit Insurance Corporation is in compliance with the requirements under both the Credit Union Act and the Memorandum of Understanding.

As I look back on 2013, 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 and its members. 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. Finally, our thanks to Credit Union Management and Staff for their cooperation and courtesy towards CUDIC and their staff.

Respectfully submitted,

Rod A. Munroe
Chair

ceo report of the **chief executive officer**

I AM PLEASED TO REPORT on the activities of the corporation and the state of our system. We are living in challenging times in the financial services industry. Interest rates have remained low for the most extended period of time since the end of World War II. Consumers are rate sensitive and are placing constant pressure on margins. The business environment has demanded that management and boards examine operations closely and take the steps necessary to remain relevant to our members. It is clear that a substantial effort has been made in this regard. As I indicate in the following pages, profitability has stabilized, expenses are being closely managed and our loan growth is improved. As all system participants recognize, this is a trend that must continue.

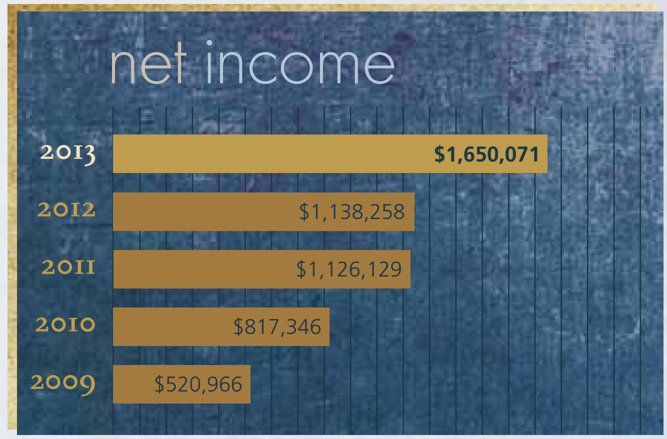
The Year in Review

The year has seen a number of initiatives by the Corporation;

- Building on the information sessions which we delivered in 2012, each credit union in the system was provided with a "report card" summarizing financial results for the system, the credit union and its peer group. We offered these and the accompanying commentary to provide board and management with our perspective to aid in their strategic discussions and related business activities.
- During Q2, management, staff, board and invited guests participated in our biannual strategic planning session. The fundamental question we considered was "Should CUDIC be more interventionist?" Considering the challenges we are confronted with as a system, the unanimous response to the question was "yes." System participants will have noticed additional communications from the undersigned in recent months related to this topic.
- In partnership with Atlantic Central, board and management participated on the Credit Union Act Review Committee at the request of the Minister of Finance. After several months of work including extensive consultation with system participants, our final report has been tabled with the Minister.

I am honoured to serve as the Vice-Chair of the Credit Union Prudential Supervisors Association of Canada (CUPSA). The organization is composed of credit union deposit insurers and prudential supervisors from across Canada. CUPSA works toward maintaining a sound and sustainable credit union sector through joint actions. Our work in the past year extended to governance best practices, credit union system liquidity, information technology risk, deposit insurance fund size, and recent changes to International Financial Reporting Standards (IFRS).

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



CUDIC is a member of the International Credit Union Regulators Network (ICURN). This global organization has members from around the world who are engaged in regulation of the credit union systems in their countries. I was privileged to participate in the Annual Conference and Professional Development day in San Diego in Q2. The 24 participating countries considered topics including corporate governance assessment methods and risk based supervision practices. Participants were exposed to speakers representing best in class expertise in strategic areas ranging from credit union operating strategy to capital formation. I am grateful for this development opportunity.

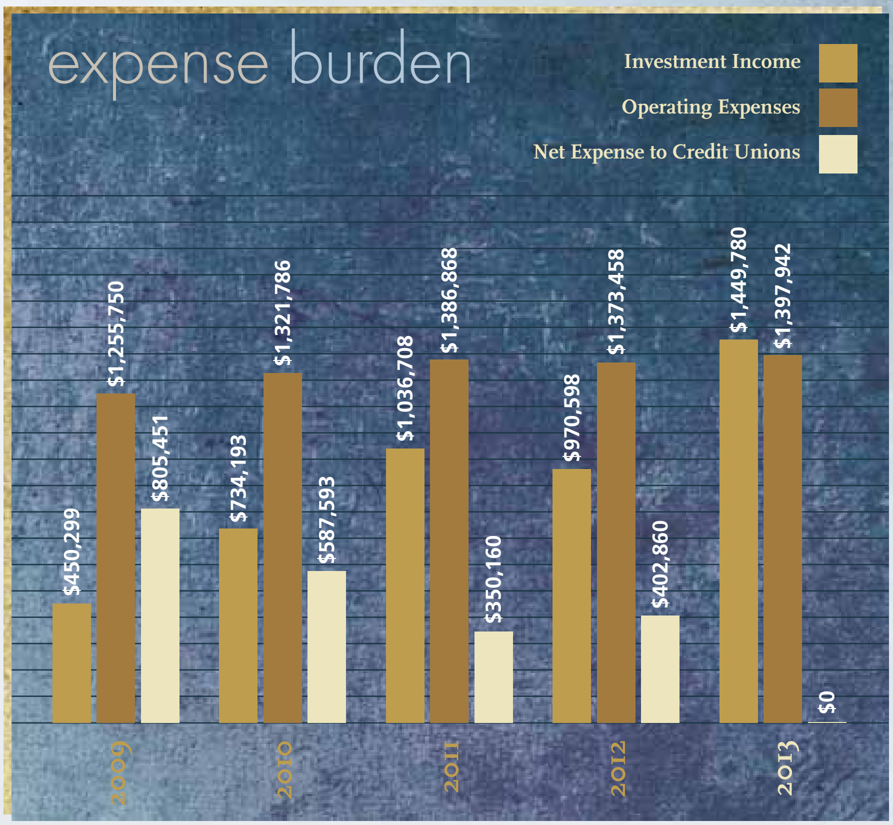
The Superintendent's Office, Atlantic Central and CUDIC continue to maintain an excellent working relationship, with regular tri-party meetings held during the year providing a means to collectively address areas of mutual concern.

CUDIC Results

CUDIC produced solid results in 2013. Net earnings increased by 45% to $1,650,071 ($1,138,258 '12). Improvement is almost entirely related to Investment and other income which improved by $479,182. Assessments from credit unions increased by $57,115 as a result of continued growth in system assets; the weighted average assessment paid by credit unions in 2013 was 7.85% (7.65% '12). 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 by $24,484 or 1.8% over 2012. Increase was largely related to costs associated with our offsite planning session which saw Board and Committee expenses increase by $35,942 for the year. Excluding this expense item total operating expenses decreased by .83% over 2012.

The Investment Committee and 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. The portfolio generated positive returns in 2013 as equity markets produced very good returns. The one-year return on our managed portfolio was a strong 13.03% (5.15% '12). The holdings in our portfolio are carefully selected for quality by our investment counsel and are well diversified. Since its inception in 1992, the portfolio has had an overall return of 6.31%. As at December 31, 2013, our investments were 20.7% in cash and equivalents, 40% in Fixed Income, 25.2% in Canadian Equity, and 14.1% in US Equity. The net return (Accumulated Other Comprehensive Income) on the equity holdings in our portfolio since inception is $929,729 ($106,652 '12) reflecting an unrealized increase in value. Fund balance as at year end was $23,906,188 or 1.15% of system assets; (1.07% '12) versus a benchmark of 1%.



System Results

Audited results reflect net income after taxes of $7.1 Million or 35bps. ($7.6 Million – 39bps '12). Slippage is reflective of continuing pressure on margins. Operating expenses decreased by 20bps to 3.84% of WAA. Provision for impaired loans reduced to 13bp vs. 15bp in 2012, reflecting prudent portfolio management. Personnel costs are the largest expense in this category at 1.90% (1.98% '12).

Asset growth was 3.9% or $77 Million year over year. Equity position remains solid at 8.38% (8.41% '12). Deposits grew by 3.82% (2.8% '12), while loan growth was improved at 6.77% (5.74% '12). Excess liquidity position has improved with loan / asset ratio at 77.28% (75.12% '12). Loan book continues to be dominated by Mortgages which grew by $54 Million, or 6.94% year over year and represent 56% of the total portfolio. Business loans have grown by 11.5% and comprise 9.5% of total loans. Delinquency is well controlled at 1.13% (1.12 % '12) for all accounts and LOCs over 30 days and 90 day delinquency rate at .57% (.55% '12).

system results

	2013	2012	2011	2010	2009
Return on Assets (% of average assets)	**0.35**	0.39	0.63	0.54	0.52
Total Equity	**8.38**	8.41	8.49	8.31	8.16
Deliquency >30 Days	**1.13**	1.12	1.15	1.31	1.28
Deliquency >90 Days	**0.57**	0.55	0.61	0.67	0.55
Asset Growth	**3.86**	3.58	6.20	4.52	4.79
Deposit Growth	**3.82**	3.44	4.75	4.17	3.60
Loan Growth	**6.77**	5.98	3.84	5.69	5.40

All system participants have contributed to the continued success of our system. I want to express my sincere appreciation to my CUDIC colleagues for the role they play in keeping our system strong and their commitment to protecting the interests of depositors/members.

Respectfully submitted,

P.C. Ryan

Pat Ryan
Chief Executive Officer

assessments

2013	**$1,598,233**
2012	$1,541,118
2011	$1,476,289
2010	$1,404,939
2009	$1,295,558

financial statements

Nova Scotia Credit Union Deposit Insurance Corporation

annual report 2013

auditors

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, 2013, and the statements of earnings, equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Nova Scotia Credit Union Deposit Insurance Corporation as at December 31, 2013, and its financial performance and its cash flows for the year ended in accordance with International Financial Reporting Standards.

Wiles I Sweeney Limited

Chartered Accountants, *Dartmouth, Nova Scotia*
March 3, 2014

earnings

statement of **earnings**

Year ended December 31	**2013**	**2012**
Revenue		
Assessments and recoveries *(Note 7)*	**$ 1,598,233**	$ 1,541,118
Investment and other income	**1,449,780**	970,598
	3,048,013	2,511,716
Expenses		
Operating		
Board and committees	**154,794**	118,852
Contracted services and expenses	**100,252**	126,271
Depreciation	**22,621**	35,152
Insurance	**13,487**	14,364
Legal and consulting	**3,140**	–
Occupancy	**79,571**	87,589
Office	**66,190**	65,448
Professional fees	**95,042**	89,005
Risk management programs	**25,000**	5,445
Salaries and employee benefits	**726,828**	712,346
Telephone	**18,038**	17,534
Travel	**92,979**	101,452
	1,397,942	1,373,458
Net earnings	**$ 1,650,071**	$ 1,138,258

(See accompanying notes to the financial statements)

statement of **equity**

December 31, 2013

	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Equity	Total Comprehensive Income (Loss)
Balance January 1, 2012	$ 19,338,737	$ 195,141	$ 19,533,878	$ 4,104,250
Net earnings for the year	1,138,258	–	1,138,258	1,138,258
Realized gains (losses) transferred to net earnings during the year	–	339,379	339,379	339,379
Unrealized gains (losses) on available for sale financial assets during the year	–	(427,868)	(427,868)	(427,868)
December 31, 2012	$ 20,476,995	$ 106,652	$ 20,583,647	$ 5,154,019
Net earnings for the year	1,650,071	–	1,650,071	1,650,071
Realized gains (losses) transferred to net earnings during the year	–	743,138	743,138	743,138
Unrealized gains (losses) on available for sale financial assets during the year	–	79,939	79,939	79,939
December 31, 2013	$ 22,127,066	$ 929,729	$ 23,056,795	$ 7,627,167

(See accompanying notes to the financial statements)

position

statement of financial position

December 31	2013	2012
Assets		
Cash	**$ 21,660**	$ 37,437
Accounts receivable *(Note 3)*	**58,788**	70,133
Investments *(Note 4)*	**23,906,188**	21,321,583
Prepaid expenses	**30,852**	9,481
Capital assets *(Note 5)*	**15,815**	29,841
	$ 24,033,303	$ 21,468,475
Liabilities		
Accounts payable and accrued liabilities *(Note 6)*	**$ 399,295**	$ 365,696
Unclaimed balances *(Note 9)*	**577,213**	519,132
	976,508	884,828
Commitments *(Note 10)*		
Equity		
Accumulated other comprehensive income	**929,729**	106,652
Retained earnings	**22,127,066**	20,476,995
	23,056,795	20,583,647
	$ 24,033,303	$ 21,468,475

Approved on behalf of the board:

Director

Director

(See accompanying notes to the financial statements)

statement of **cash flow**

Year ended December 31	**2013**	**2012**
Cash provided by (used for)		
Operating activities		
Investment and other income received	**$ 517,734**	$ 1,577,311
Assessments and recoveries received	**1,635,739**	1,539,827
Receipts from (advances to) employees on computer loans	**4,458**	(1,535)
Payments to employees and suppliers	**(1,368,077)**	(1,174,130)
Receipts from unclaimed balances, net of paid outs	**58,081**	54,754
Cash flows provided by operating activities	**847,935**	1,996,227
Investing activities		
Purchase of investments, net of proceeds of sale	**(855,117)**	(2,017,771)
Additions to equipment and leaseholds	**(8,595)**	(14,717)
Cash flows used for investing activities	**(863,712)**	(2,032,488)
Increase (decrease) in cash	**(15,777)**	(36,261)
Cash, beginning of the year	**37,437**	73,698
Cash, end of year	**$ 21,660**	$ 37,437

(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 3, 2014, the Corporation's Board of Directors approved and authorized for issue the financial statements for the year ended December 31, 2013.

2. 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 noncurrent asset or liability, with changes in the year recorded in the statement of earnings in tax expense or in the statement of comprehensive income, if they relate to an item directly recorded in this statement.

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

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

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 pretax 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.

Trade payables

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

Cash flow statement

The cash flow statement is prepared using the direct method.

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).

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.

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.

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 Assets/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 & 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.

3. ACCOUNTS RECEIVABLE

	2013	**2012**
Credit Union assessments	**$ 11,355**	$ 37,573
Rebates receivable	**8,006**	11,286
Accrued interest	**26,328**	8,697
Harmonized sales tax	**13,099**	8,119
Computer loans and other	**—**	4,458
	$ 58,788	$ 70,133

4. INVESTMENTS

	2013	**2012**
Managed investments	**$ 19,177,624**	$ 16,648,136
Credit union system investments	**4,728,564**	4,673,447
	$ 23,906,188	$ 21,321,583

Managed investments consist of Canadian federal, municipal and provincial government and corporate bonds, indexed pool funds and equity instruments. Managed investments are stated at fair value, which is the quoted market price at the balance sheet date. The bonds have interest rates ranging from 1.4% to 9.7% on an annual basis, with maturity dates ranging from 3 months to 95 years. The cost of these investments at December 31, 2013 is $18,247,895 (December 31, 2012 $16,541,485.

Credit union system investments include credit union guaranteed investment certificates and a demand liquidity account, with interest rates ranging from 1.65% to 2.0% and maturity dates up to October 2016. Market value is equal to cost for these investments.

5. CAPITAL ASSETS

Cost:	Furniture + office equipment	Leasehold improvements	Total
January 1, 2012	$ 118,686	$ 1,000	$ 119,686
Acquisitions	14,717	–	14,717
Dispositions	(23,232)	–	(23,232)
December 31, 2012	$ 110,171	$ 1,000	$ 111,171
Acquisitions	8,595	–	8,595
Dispositions	(30,834)	–	(30,834)
December 31, 2013	$ 87,932	$ 1,000	$ 88,932
Accumulated amortization:			
January 1, 2012	$ 69,010	$ 400	69,410
Dispositions	(23,232)	–	(23,232)
Amortization	34,952	200	35,152
December 31, 2012	80,730	600	81,330
Dispositions	(30,834)	–	(30,834)
Amortization	22,421	200	22,621
December 31, 2013	$ 72,317	$ 800	$ 73,117
Net Book Value:			
December 31, 2012			$ 29,841
December 31, 2013			$ 15,815

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.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2013	**2012**
Trade payables and accruals	**$ 101,154**	$ 65,834
Accrual for retirement (Note 13)	**144,066**	135,741
Payable to credit union	**154,075**	164,121
	$ 399,295	$ 365,696

7. ASSESSMENTS AND RECOVERIES

	2013	**2012**
Credit unions' assessments regular	**$ 1,598,233**	$ 1,504,838
Recoveries of assistance to credit unions	**—**	36,280
	$ 1,598,233	$ 1,541,118

8. 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
2032	539,388
2033	323,956
	$ 4,540,051

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

9. 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:

	2013	2012
Balance beginning of year	**$ 519,132**	$ 464,378
Add receipts from Credit Unions	**73,450**	56,123
Less payouts to members	**(15,369)**	(1,369)
Balance end of year	**$ 577,213**	$ 519,132

10. 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 $107,063 during the current year (2012 $106,745) related to the operating leases.

Minimum future payments under these operating leases are as follows:

2014	$ 100,230
2015	81,600
	$ 181,830

The Corporation has provided loan guarantees to Lahave Credit Union Limited in the amount of $19,400. This guarantee expires on August 31, 2014 and was provided in connection with member loans transferred from another credit union. Should it be determined that a liability associated with this guarantee will arise, any such liability will be recorded by the Corporation at that time.

11. NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS

The 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.

The Corporation is exposed to financial risks including credit risk, liquidity risk, market risk and operational 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 equivalents to fulfil its financial obligations as they come due. In order to mitigate this risk, a significant portion of the Corporation's investments are classified as "available-for-sale" and are readily redeemable or saleable and can be sold if the need arises.

C) Market risk

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

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

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

D) Operational risk

Operational risk relates to the possibility 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.

12. CAPITAL MANAGEMENT

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

13. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

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

	2013	**2012**
Short-term benefits	**$ 199,871**	$ 179,385
Post-employment benefits	**8,858**	8,728
Total salaries and benefits	**$ 208,729**	$ 188,113

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 (2013 $36,884; 2012 $36,050).

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.

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North Sydney Credit Union
Dominion Credit Union
Whitney Credit Union
Coady Credit Union
Elegtragas Credit Union
Weymouth Credit Union
Bay St. Lawrence
Public Service Employees
Electric Employees

mission

Mission Statement

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

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