Annual Report 2014

CREDIT UNION DEPOSIT INSURANCE CORPORATION

CUDIC™

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COMMITTEES OF THE
Board of Directors

Directors *(standing, left to right)* Marion Garlick, *Secretary*; Bill Legge, *Vice-Chair*; Johnny Armstrong; Réal Boudreau *(seated, left to right)* Lantz Siteman; Gerard MacKinnon, *Chair of the Board*; Roddie Munroe

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*
- Carol Pettigrew
- Bill Legge
- Roddie Munroe

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.

- Roddie Munroe, *Chair*
- Réal Boudreau
- Lantz Siteman
- Bill Legge

Investment Committee

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

- Lantz Siteman, *Chair*
- Réal Boudreau
- Bill Legge
- Roddie Munroe

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*
- Carol Pettigrew
- Lantz Siteman
- Marion Garlick

By Gerard MacKinnon, Chair of the Board

REPORT OF THE Chair of the Board

It is my pleasure to present the annual report, on behalf of the Board of Directors of the Credit Union Deposit Insurance Corporation for 2014.

The year was another successful one given the volatility and lack of predictability of the global, national, provincial and local economies. The strong regulatory environment governing Canadian financial institutions, while presenting challenges, continues to help ensure the continued good governance of the Credit Unions in Nova Scotia.

There continues to be a total of twenty eight Credit Unions in Nova Scotia; however, a number of groups are exploring ways in which they may improve how they accommodate the needs/wants of their members. These discussions might focus on topics such as increased cooperation among credit unions, strategic alliances, shared resources, and in some cases, the possibility of amalgamations.

The mission of CUDIC to provide protection to the Nova Scotia member-owners was aided in a large way by the visits by our staff and contract employees to carry out reviews of the operation of each of the Credit Unions, including 13 full Loan Reviews with 3 follow up visits and 6 Internal Control Reviews and 5 Money Laundering Audits. These reviews along with our deposit insurance of $250,000, which is the highest in Nova Scotia, allow the member-owners to have a very high level of consumer confidence in our Credit Union System.

The Members of the Board of Directors continued to demonstrate a commitment to carry out their duties as provided under The Credit Union Act. In order to aid in keeping the Directors well informed, a number of conferences/meetings were attended during the year. These included, the International Credit Union Regulators Network Conference (ICURN), the Canadian Conference for Credit Union Leaders and the Credit Union Prudential Supervisors Association (CUPSA).

The Board members attended the Atlantic Centrals Annual General Meeting as well as their Fall Conference. Our attendance at these events helps us to stay informed on the current issues locally, nationally, and internationally, as welling as getting to know our counterparts in other jurisdictions — their concerns and their solutions. Some of the directors also attended a number of the Credit Union Director Achievement (CUDA) sessions in Moncton.

We also took advantage of the opportunity to have presentations at our Board Meetings. The presentations were from Ted Price, retired Deputy Superintendent at the Office of the Superintendent of Financial Institutions Canada (OSFI), Heather Hurshman, Account Manager at Louisbourg Investments, the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), and Paul Mackley, Vice-President, Services to Credit Unions for CGI on IT Risk.

During this year, the Board met eight times as well as holding a one day planning session. The Executive, Enterprise Risk Management (ERM), Audit, Investment, Policy, and Human Resources Committees met as required. Board and management also met to finish the response to The Act Review as well as the report of the review completed by the Nova Scotia Finance and Treasury Board (Financial Institutions Division).

Another valued asset we have available to assist in accomplishing our goals is the tri-party relationship with Atlantic Central, the Office of the Superintendent and CUDIC. The CEO's and the Superintendent meet frequently and representatives from Government and Atlantic Central attend our Board Meetings. The open and regular communications allows the Board and Staff to feel confident that we are aware of and are addressing the pertinent issues affecting the Nova Scotia Credit System.

Nous venons d'achever une autre année fructive. Tel qu'il sera rapporté plus tard par notre directeur général cette corporation continue d'augmenter le fond nécessaire au bon fonctionnement de notre système. En fonction de notre mandat, comme d'habitude et tel qu'attendu, nos analystes ont fréquenté plusieurs caisses populaires pendant 2014 afin de produire les rapports nécessaires pour assurer la confiance continue de nos membres dans celles-ci. Le conseil d'administration s'est tenu très occupé, d'abord en se rencontrant à plusieurs reprises, soit en réunion régulière ou en comité ainsi qu'en assistant à des rencontres locales, régionales, nationales et même à l'international. Assurément, nous vivons dans un monde qui change d'année en année, parfois de façon évidente et parfois de façon plus subtile. Quoi que ce soit, CUDIC s'efforce toujours à évoluer de même que le système qu'elle surveille, et cette année n'en a pas été une exception.

During 2014, it has been a pleasure to work with the Board members who have demonstrated understanding of their duties and have worked diligently to carry out their responsibilities. We have had a change in the make-up of the Board this year. Carol Pettigrew retired after serving two, three year terms. We thank Carol for her dedication during her time with CUDIC and wish her well in the future. The Government appointed John Armstrong as her replacement and we look forward to working with him.

I also want to thank our CEO, who will cover the financials in his report, and each of the CUDIC staff members who have continued to offer their support and assistance throughout the year. Finally, I want to thank management and staff of each of the Nova Scotia Credit Unions who have graciously offered their support and cooperation to our Staff during each of their visits.

Respectfully Submitted,

Gerard MacKinnon

Gerard MacKinnon
Chair

REPORT OF THE
Chief Executive Officer

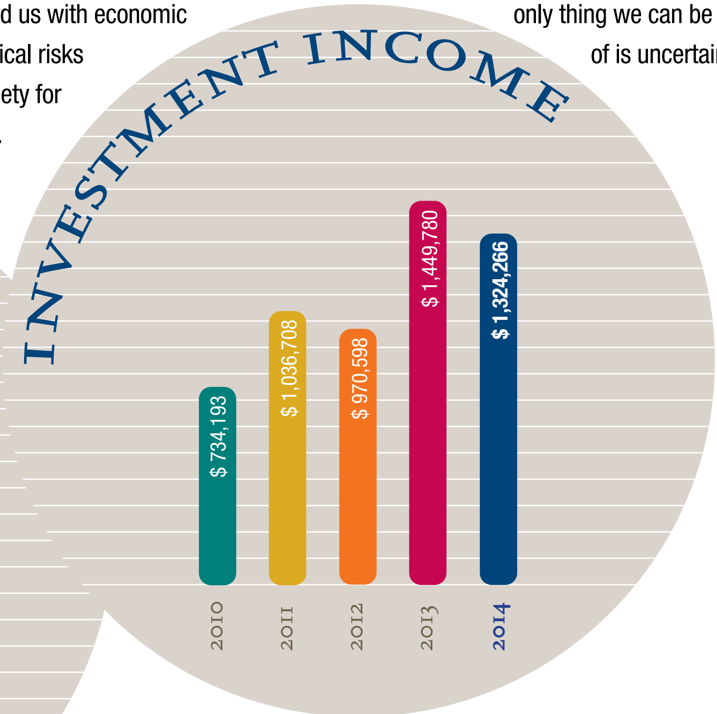
As I reflect upon 2014, I am certain that system participants remain focused on the continued success of our system.

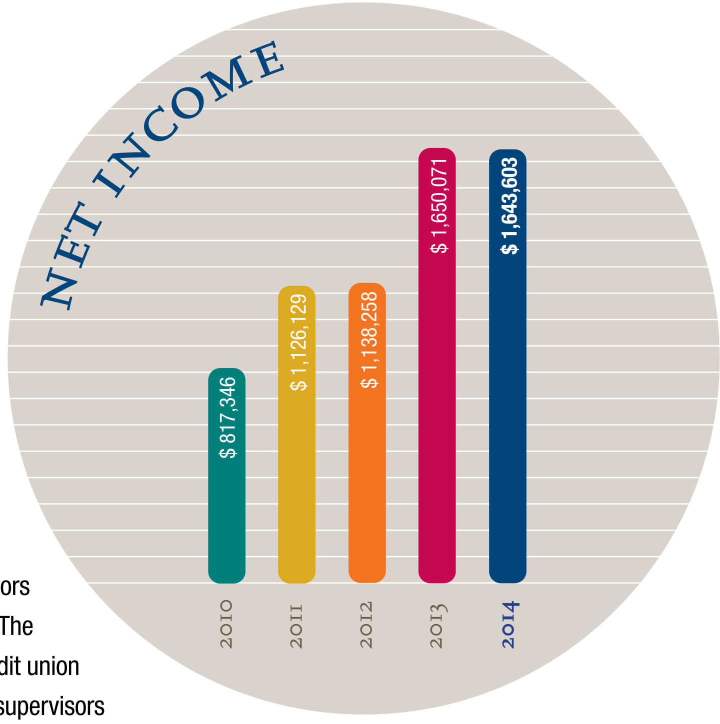
By Pat Ryan, Chief Executive Officer

Introduction

We live in interesting times. For several years, experts have been predicting an end to the most extended period of low interest rates since the end of World War II. Canada's dollar has been strong based on our wealth of petroleum reserves. We have all experienced the effect of greenhouse gasses as our climate changes and weather events become more extreme. North America's reliance on Middle Eastern oil has presented us with economic and political risks as a society for decades.

It is ironic that our efforts to become self sufficient and OPEC's unwillingness to cap oil production have dramatically altered our economic circumstances in a surprising fashion. As I write this report the Bank of Canada has lowered interest rates in an attempt to mitigate the negative impact on our economy of oil at $50 a barrel. Our dollar is at a six year low, and stock markets are surging. Clearly as 2015 unfolds, the only thing we can be certain of is uncertainty.





The Year in Review

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

- Throughout the year, I have visited with the Management and Boards to offer our perceptions of their organizations, discuss our corporate activities and review comparative financial performance.
- At the invitation of the Credit Union Manager's Association (CUMA), we have commenced a dialogue on our oversight activities. This exchange has resulted in a number of positive suggestions that we have acted on in the area of information sharing. Our discussions are continuing in 2015.
- We have issued guidance and intervened with individual credit unions as necessary to protect the interests of depositors.
- We have continued our robust examination and monitoring process.

In November, I commenced a two-year term as 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 has focused on the state of our national payments system as well as responding to the changes to our system necessitated by the introduction of bill C43 as it relates to provincial jurisdictions.

I was invited, along with my colleagues from BC and Ontario, to participate in a successful briefing to Federal Officials in Ottawa by Credit Union Central of Canada. As an association, we are placing high priority on maintaining our positive and productive working relationship with our Federal counterparts.

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

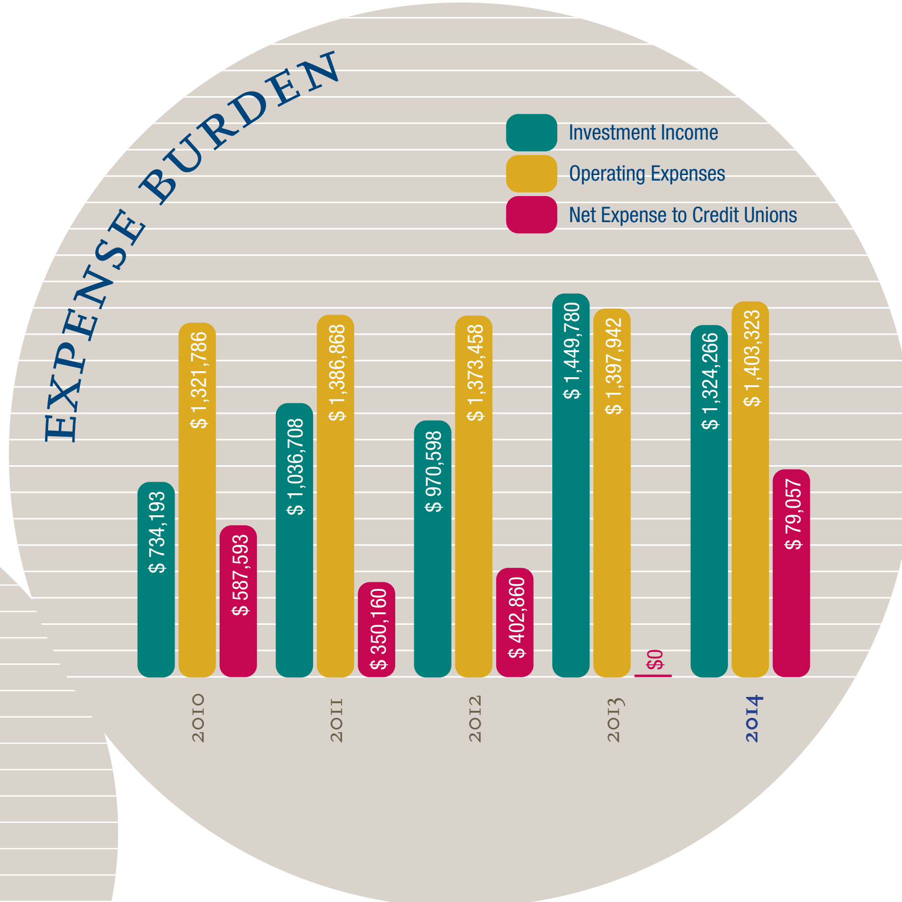
CUDIC is a member of the International Credit Union Regulators Network (ICURN). This global organization has members from around the world who are engaged in regulation of the credit union systems in their countries. I was privileged to participate in the Annual Conference and Professional Development day in London, England during Q2. The participating countries considered topics including Cyber-security, Stress Testing and Capital Adequacy. Guest speakers presented the best global insights available on topics of interest to this specialized and diverse audience.

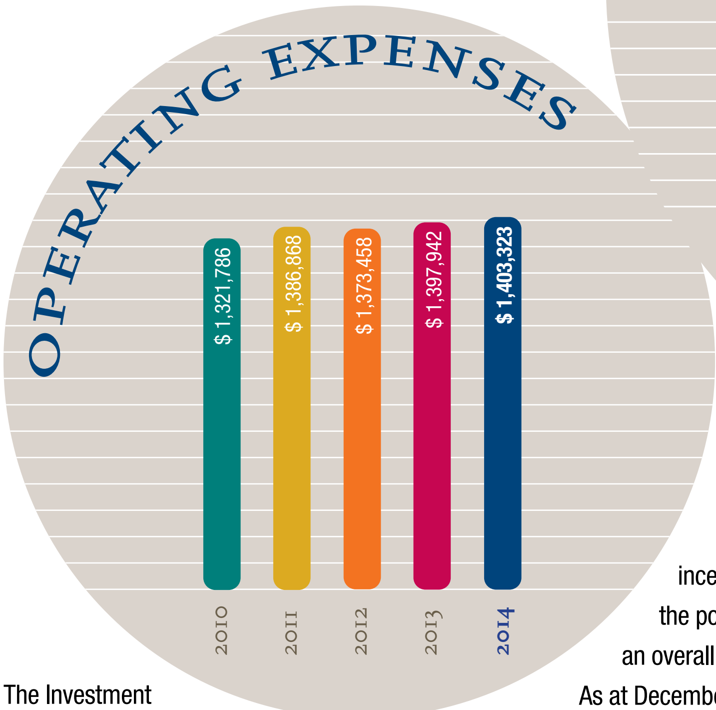
The Superintendent's Office, Atlantic Central and CUDIC continue to maintain an excellent working relationship, with regular tri-party meetings held during the year providing a means to collectively address areas of mutual concern.

CUDIC Results

CUDIC delivered sound financial performance in 2014. Net earnings were stable at $1,643,603 ($1,650,071 '13). Assessments from credit unions increased by $124,427 as a result of continued growth in system assets; the weighted average assessment paid by credit unions in 2014 was 8.20% (7.85% '13). The premium increase is reflective of the risks inherent in the system's changing asset mix as business lending forms an increasingly more significant portion of the balance sheet.

Operating expenses were consistent with the previous year increasing by only $5,381 over 2013. Material increases year over year were in Salaries and Benefits at $18,950 (2.6%) reflecting Board approved compensation adjustments and travel $9,802 (10.5%) related to increased fieldwork during the year. Substantial reductions were realized in Boards and Committees $15,217 (9.8%), Depreciation $8,665 (38.3%) and Office $4,636 (7%).





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 2014 as equity markets continued to perform acceptably. The one-year return on our managed portfolio was a solid 6.85% (13.03% ’13). 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 6.38%. As at December 31, 2014, our investments were 19.9% in cash and equivalents, 42.8% in Fixed Income, 22.7% in Canadian Equity, and 14.6% in US Equity. The net return (Accumulated Other Comprehensive Income) on the equity holdings in our portfolio since inception is $1,038,377 ($929,729 ’13) reflecting an unrealized increase in value. Fund balance as at year-end was $25,479,532 or 1.18% of system assets (1.15% ’13) versus a benchmark of 1%.

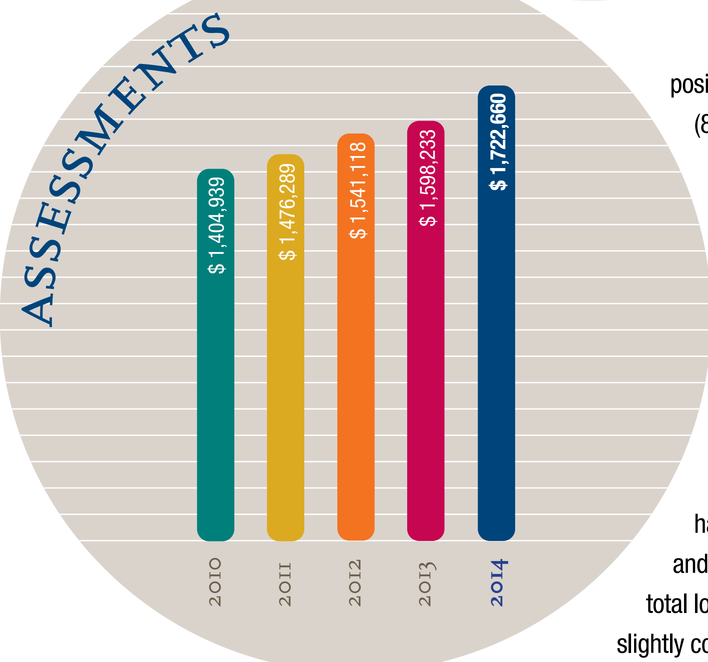
System Results

Preliminary results reflect net income after taxes of $7.7 Million or 36bps ($7.1 Million – 35bps ’13). Improvement is a result of expense reductions outstripping compression in Gross Margin. Operating expenses decreased by 8bps to 3.76% of WAA. Provision for impaired loans increased to 18bp vs. 13bp in 2013 reflecting increased business lending and economic factors. Personnel costs are the largest expense in this category at 1.87% (1.90% ’13).

SYSTEM RESULTS

	2014	2013	2012	2011	2010
Return on Assets (% of average assets)	0.36	0.35	0.39	0.63	0.54
Total Equity	8.28	8.38	8.41	8.49	8.31
Delinquency >30 Days	1.38	1.13	1.12	1.15	1.31
Delinquency >90 Days	0.62	0.57	0.55	0.61	0.67
Asset Growth	4.20	3.86	3.58	6.20	4.52
Deposit Growth	4.10	3.82	3.44	4.75	4.17
Loan Growth	6.30	6.77	5.98	3.84	5.69

ASSESSMENTS



Asset growth was 4.2% or $88 Million year over year. Equity position remains solid at 8.28% (8.38% '13). Deposits grew by 4.1% (3.82% '13), while loan growth was 6.3% (6.77% '13). Loan / asset ratio is 79.02% (77.45% '13). Loan book continues to be dominated by Mortgages, which grew by $83 Million, or 9.11% year over year and represent 58% (56% '13) of the total portfolio. Business loans have grown by 13.3% (11.5% '13) and comprise 9.5% (9.5% '13) of total loans. Delinquency has edged up slightly consistent with foregoing comments concerning asset mix at 1.38% (1.13% '12) for all accounts and LOCs over 30 days and 90-day delinquency rate at .62% (.57% '12).

As I reflect upon 2014, I am certain that system participants remain focused on the continued success of our system.

I want to express my thanks to our Board of Directors for their support and guidance. Last, but certainly not least, I wish to recognize my CUDIC colleagues for their commitment to protecting the interests of depositors/members.

Respectfully submitted,

P.C. Ryan

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, 2014, 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, 2014, and its financial performance and its cash flows for the year ended in accordance with International Financial Reporting Standards.

Whites I Sweeney Limited

Chartered Accountants, *Dartmouth, Nova Scotia*
March 3, 2015

STATEMENT OF Earnings

Year ended December 31	2014	2013
Revenue		
Assessments and recoveries	**$ 1,722,660**	$ 1,598,233
Investment and other income	**1,324,266**	1,449,780
	3,046,926	3,048,013
Expenses		
Operating		
Board and committees	**139,577**	154,794
Contracted services and expenses	**102,625**	100,252
Depreciation	**13,956**	22,621
Insurance	**17,011**	13,487
Legal and consulting	**4,775**	3,140
Occupancy	**77,653**	79,571
Office	**61,554**	66,190
Professional fees	**100,445**	95,042
Risk management programs	**20,000**	25,000
Salaries and employee benefits	**745,778**	726,828
Telephone	**17,168**	18,038
Travel	**102,781**	92,979
	1,403,323	1,397,942
Net earnings	**$ 1,643,603**	$ 1,650,071

(See accompanying notes to the financial statements)

STATEMENT OF Equity

December 31, 2014

	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Equity	Total Comprehensive Income (Loss)
Balance January 1, 2013	$ 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
Net earnings for the year	1,643,603	—	1,643,603	1,643,603
Realized gains (losses) transferred to net earnings during the year	—	631,564	631,564	631,564
Unrealized gains (losses) on available for sale financial assets during the year	—	(522,916)	(522,916)	(522,916)
December 31, 2014	$ 23,770,669	$ 1,038,377	$ 24,809,046	$ 9,379,418

(See accompanying notes to the financial statements)

STATEMENT OF Financial Position

December 31	2014	2013
Assets		
Cash	**$ 46,070**	$ 21,660
Accounts receivable *(Note 3)*	**45,799**	58,788
Investments *(Note 4)*	**25,479,532**	23,906,188
Prepaid expenses	**31,270**	30,852
Capital assets *(Note 5)*	**22,589**	15,815
	$ 25,625,260	$ 24,033,303
Liabilities		
Accounts payable and accrued liabilities *(Note 6)*	**$ 208,477**	$ 399,295
Unclaimed balances *(Note 8)*	**607,737**	577,213
	816,214	976,508
Commitments *(Note 9)*		
Equity		
Accumulated other comprehensive income	**1,038,377**	929,729
Retained earnings	**23,770,669**	22,127,066
	24,809,046	23,056,795
	$ 25,625,260	$ 24,033,303

Approved on behalf of the board:

Director

Director

(See accompanying notes to the financial statements)

STATEMENT OF Cash Flow

Year ended December 31	2014	2013
Cash provided by (used for)		
Operating activities		
Investment and other income received	**$ 1,551,178**	$ 517,734
Assessments and recoveries received	**1,739,440**	1,635,739
Receipts from (advances to) employees on computer loans	**—**	4,458
Payments to employees and suppliers	**(1,574,113)**	(1,368,077)
Receipts from unclaimed balances, net of paid outs	**30,524**	58,081
Cash flows provided by operating activities	**1,747,029**	847,935
Investing activities		
Purchase of investments, net of proceeds of sale	**(1,701,889)**	(855,117)
Additions to equipment and leaseholds	**(20,730)**	(8,595)
Cash flows used for investing activities	**(1,722,619)**	(863,712)
Increase (decrease) in cash	**24,410**	(15,777)
Cash, beginning of the year	**21,660**	37,437
Cash, end of year	**$ 46,070**	$ 21,660

(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, 2015, the Corporation`s Board of Directors approved and authorized for issue the financial statements for the year ended December 31, 2014.

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 the 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.

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 measured 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

	2014	**2013**
Credit Union assessments	**$ 2,580**	$ 11,355
Rebates receivable	**9,837**	8,006
Accrued interest	**26,772**	26,327
Harmonized sales tax	**6,010**	13,100
Atlantic Central receivable	**600**	—
	$ 45,799	$ 58,788

4. INVESTMENTS

	2014	**2013**
Managed investments	**$ 20,649,079**	$ 19,177,624
Credit union system investments	**4,830,453**	4,728,564
	$ 25,479,532	$ 23,906,188

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 4 months to 94 years. The cost of these investments at December 31, 2014 is $19,610,702 (December 31, 2013 - $18,247,895).

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

	Furniture + office equipment	Leasehold improvements	Total
Cost:			
January 1, 2013	$ 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
Acquisitions	17,230	3,500	20,730
Dispositions	—	—	—
December 31, 2014	$ 105,162	$ 4,500	$ 109,662
Accumulated amortization:			
January 1, 2013	$ 80,730	$ 600	$ 81,330
Dispositions	(23,232)	—	(23,232)
Amortization	22,421	200	22,621
December 31, 2013	72,317	800	73,117
Dispositions	—	—	—
Amortization	13,056	900	13,956
December 31, 2014	$ 85,373	$ 1,700	$ 87,073
Net Book Value:			
December 31, 2013			$ 15,815
December 31, 2014			$ 22,589

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

	2014	**2013**
Trade payables and accruals	**$ 45,476**	$ 101,154
Accrual for retirement *(Note 12)*	**155,529**	144,066
Payable to credit union	**7,472**	154,075
	$ 208,477	$ 399,295

7. 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:

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
2034	390,113
	$ 4,358,903

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

8. 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:

	2014	2013
Balance beginning of year	**$ 577,213**	$ 519,132
Add receipts from Credit Unions	**33,443**	73,450
Less payouts to members	**(2,919)**	(15,369)
Balance end of year	**$ 607,737**	$ 577,213

9. 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 2018. The Corporation has done a thorough review of the lease conditions and concluded that they were all operating leases. The Corporation has expensed $106,525 during the current year (2013 - $107,064) related to the operating leases.

Minimum future payments under these operating leases are as follows:

2015	$ 107,536
2016	27,733
2017	27,733
2018	8,844
	$ 171,846

10. 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 the 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 re-pricing 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.

11. 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.

12. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

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

	2013	2013
Short-term benefits	$ 204,632	$ 199,871
Post-employment benefits	9,133	8,858
Total salaries and benefits	$ 213,765	$ 208,729

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 (2014 - $37,713; 2013 - $36,884).

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

Peer Group 1

East Coast Credit Union
Credit Union Atlantic
Bergengren Credit Union
Sydney Credit Union
Valley Credit Union
Coastal Financial Credit Union

Peer Group 2

Steel Centre Credit Union
Community Credit Union
Caisse populaire de Clare
Teachers Plus Credit Union
St. Joseph's Credit Union
Victory Credit Union
Acadian Credit Union
New Waterford Credit Union
Glace Bay Central Credit Union
Province Government Employees Credit Union

Peer Group 3

iNova Credit Union
LaHave River Credit Union
New Ross Credit Union
Princess Credit Union
North Sydney Credit Union
Dominion Credit Union
Coady Credit Union
Elegtragas Credit Union
Weymouth Credit Union
Bay St. Lawrence
Public Service Employees
Electric Employees

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.

CUDIC

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